Bow Valley Energy Ltd.

2007 Annual Report

A full-cycle company goes full speed ahead

This is an exciting time for Bow Valley. From our beginnings as a junior player in 1996, Bow Valley is growing into a full-cycle, mid-sized international oil and natural gas company with operations in Alaska and the North Sea.

Today, we are a far more dynamic and mature company than we were even a year ago. We have a stable production base, with additional volumes slated to come on stream over the next 12 months. We have a strong team of international oil and natural gas experts on board. Our finances are solid, with the vast majority of our cash flow derived from premium-priced, high-quality light oil. Above all, our balanced business approach is clearly focused on delivering maximum profitable growth while managing risk.

With this strong foundation in place, we recently added a new dimension to our Company: international exploration. We have also become an operator – a leadership role that offers us increased autonomy and credibility in the global arena.

Today, Bow Valley is well positioned to take advantage of a full spectrum of development, production, exploration and acquisition opportunities. We look forward to significant growth and a commensurate increase in cash flow and earnings. We are poised and ready for the next cycle in our evolution – and a new level of success.

Bow Valley's shares trade on the Toronto Stock Exchange under the symbol BVX.

Corporate Profile

Bow Valley Energy's 2007 Annual Report is just one of the many ways we communicate with our shareholders. We regularly post quarterly results and other information on our website and invite you to visit us at www.bvenergy.com. In addition, this year we have prepared a Corporate Profile that provides information on our properties and our plans for the future. A copy is available on our website or by contacting us at our corporate office:
1200, 333 Seventh Avenue SW, Calgary, Alberta, Canada T2P 2Z1, Phone: (403) 232-0292.

Highlights

ON APRIL 30, 2007, THE COMPANY ENTERED INTO AN AGREEMENT with a third party for the sale of its Canadian oil and natural gas interests which closed on May 31, 2007. As a result, the Canadian operations have been accounted for as discontinued operations and are excluded from the following financial and operational highlights.

($000s except per share amounts)	**2007**	2006	% Change
FINANCIAL			
Revenue	**49,189**	15,963	208
Funds flow	**34,781**	9,024	285
Basic per share *($/share)*	**0.43**	0.13	231
Diluted per share *($/share)*	**0.42**	0.12	250
Earnings (loss)	**23,304**	(1,512)	1,641
Basic and diluted per share *($/share)*	**0.29**	(0.02)	1,550
Working capital (deficit)	**(131,418)**	(91,397)	(44)
Shares *(000s)*			
Basic	**86,109**	72,772	18
Outstanding options	**4,128**	5,454	(24)
Weighted average – basic	**81,486**	69,700	17
– diluted	**82,954**	72,278	15
OPERATIONAL			
Daily production			
Crude oil and NGL *(bbl/d)*	**1,734**	549	216
Natural gas *(mcf/d)*	**2,137**	722	196
Oil equivalent *(boe/d)*	**2,090**	669	212
Prices			
Crude oil and NGL *($/bbl)*	**81.62**	74.47	10
Natural gas *($/mcf)*	**6.35**	6.33	–
Oil equivalent *($/boe)*	**73.06**	67.66	8
Proved Reserves			
Crude oil and NGL *(mbbls)*	**5,862**	4,235	38
Natural gas *(mmcf)*	**5,128**	4,215	22
Oil equivalent *(mboe)*	**6,716**	4,937	36
Proved and Probable Reserves			
Crude oil and NGL *(mbbls)*	**13,715**	10,663	29
Natural gas *(mmcf)*	**77,747**	15,992	386
Oil equivalent *(mboe)*	**26,674**	13,329	100
Undeveloped land *(net acres)*			
U.K.	**83,645**	49,706	68
Alaska	**59,199**	7,845	655
Total undeveloped land	**142,844**	57,551	148

Management's Discussion and Analysis

THIS MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") provides details about Bow Valley Energy Ltd.'s (the "Company") full year and fourth quarter 2007 financial results and compares them to the corresponding periods of 2006. It should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2007. All dollar amounts are expressed in Canadian dollars unless otherwise noted. The reader should be aware that historical results are not necessarily indicative of future performance. The effective date of this MD&A is March 10, 2008.

Throughout this MD&A we use the term 'funds flow from operations' which is the cash generated from operating activities before changes in non-cash working capital. This term does not have a standardized meaning under Canadian Generally Accepted Accounting Principles ("GAAP") and may not be comparable to other companies' definition of the term. Management believes that funds flow is a useful supplementary measure that may assist investors.

Certain statements included or incorporated by reference in this MD&A constitute forward-looking statements or forward-looking information under applicable securities legislation. Such forward-looking statements or information are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this MD&A include, but are not limited to, statements or information with respect to: business strategy and objectives; development plans; exploration plans; acquisition and disposition plans and the timing thereof; reserve quantities and the discounted present value of future net cash flows from such reserves; future production levels; capital expenditures; net revenue; operating and other costs; royalty rates and taxes.

Forward-looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although the Company believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this MD&A, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which the Company operates; the timely receipt of any required regulatory approvals; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manor; the ability of the Company to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Company to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the countries in which the Company operates; and the ability of the Company to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which may have been used.

Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking statements or information. These risks and uncertainties which may cause actual results to differ materially from the forward-looking statements or information include, among other things: the ability of management to execute its business plan; general economic and business conditions; the risk of war or instability affecting countries in which the Company operates; the risks of the oil and natural gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand; the possibility that government policies or laws may change or governmental approvals may be delayed or withheld; risks and uncertainties involving geology of oil and natural gas deposits; the uncertainty of reserves estimates and reserves life; the ability of the Company to add production and reserves through acquisition, development and exploration activities; the Company's ability to enter into or renew leases; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of estimates and projections relating to production (including decline rates), costs and expenses; fluctuations in oil and natural gas prices, foreign currency, exchange, and interest rates; risks inherent in the Company's marketing operations, including credit risk; uncertainty in amounts and timing of royalty payments; health, safety and environmental risks; risks associated with existing and potential future lawsuits and regulatory actions against the Company; uncertainties as to the availability and cost of financing; and financial risks affecting the value of the Company's investments. Readers are cautioned that the foregoing list is not exhaustive of all possible risks and uncertainties. Additional risk factors affecting the Company and its business are contained in the Company's Annual Information Form filed on SEDAR at www.sedar.com.

The forward-looking statements or information contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise unless required by applicable securities laws. The forward-looking statements or information contained in this MD&A are expressly qualified by this cautionary statement.

Where amounts are expressed on a barrel of oil equivalent (boe) basis, natural gas volumes have been converted to barrels of oil equivalent at six thousand cubic feet to one barrel of oil equivalent (6 mcf = 1 boe). This conversion ratio is the convention used in the oil and natural gas industry and is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalent at the wellhead. The use of boe's may be misleading, particularly if used in isolation.

Additional information relating to the Company, including the Annual Information Form, may be found on the SEDAR website at www.sedar.com or on the Company's website at www.bvenergy.com.

Critical Accounting Policies

A summary of significant accounting policies is presented in note 2 of the financial statements, including the changes made to accounting policies in the current year. Accounting pronouncements which have been issued by the Canadian Accounting Standards Board, but

were not in effect at the date of the current financial statements are detailed in note 3 of the financial statements. In accounting for oil and natural gas activities, the Company follows the full cost method.

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions regarding certain assets, liabilities, revenues and expenses. Changes to these judgments and estimates could have a material effect on the financial statements and financial position. Such estimates include those related to unsettled transactions and events as of the date of the financial statements. Others include estimates related to depletion, depreciation, amortization, accretion, asset retirement obligations, future income taxes, the ceiling test, the fair valuation of financial instruments and litigation. Actual results may differ from estimated amounts.

UNITED KINGDOM

Reserves

Bow Valley had its U.K. reserves independently evaluated as of December 31, 2007. The Company's proved plus probable reserves are considered the most likely case because there is an equal probability that the actual volumes eventually recovered will be higher or lower than the proved plus probable estimates. Company proved reserves are based on a 90% confidence level, meaning the actual volume recovered will meet or exceed the indicated Company proved reserves nine times out of 10.

Bow Valley's Reserves Committee has met with the Company's independent engineers and has reviewed and approved the reserves reports. We present the summary information below. The Company provides additional information in its Annual Information Form (AIF) and other annual filings available on the SEDAR website at www.sedar.com.

U.K. Reserves Table (Forecast Pricing)

Corporate WI Reserves **TOTAL PROVED**	Gas *mmcf*	Oil *mbbls*	NGL *mbbls*	BOE *mboe*
January 1, 2007 opening	4,215	4,235	–	4,937
Extensions	–	–	–	–
Improved Recovery	–	–	–	–
Technical Revisions	1,693	2,259	–	2,541
Discoveries	–	–	–	–
Acquisitions	–	–	–	–
Dispositions	–	–	–	–
Economic Factors	–	–	–	–
Production	(780)	(632)	–	(762)
December 31, 2007 closing	**5,128**	**5,862**	**–**	**6,716**

Corporate WI Reserves **TOTAL PROVED PLUS PROBABLE**	Gas *mmcf*	Oil *mbbls*	NGL *mbbls*	BOE *mboe*
January 1, 2007 opening	15,992	10,514	149	13,329
Extensions	–	262	–	262
Improved Recovery	–	–	–	–
Technical Revisions	(1,216)	248	–	45
Discoveries	–	–	–	–
Acquisitions	63,751	–	3,174	13,799
Dispositions	–	–	–	–
Economic Factors	–	–	–	–
Production	(780)	(632)	–	(762)
December 31, 2007 closing	**77,747**	**10,392**	**3,323**	**26,674**

Total proved reserves increased by 36% due to reclassification of reserves from the probable to proved reserves category at the Ettrick field due to progression of the field development as well as small positive revisions to Enoch reserves.

Proved plus probable reserves increased 100% due to the acquisition of an interest in the Peik field.

Revenue, Funds Flow and Net Income (Loss)

	2007		2006		% Change	
Three Months Ended December 31,	***$000s***	***$/boe***	*$000s*	*$/boe*	*$000s*	*$/boe*
Operating revenue	**27,170**	**78.36**	3,000	63.07	806	24
Interest and other income	**170**	**0.49**	15	0.32	nm	54
Royalties	**(366)**	**(1.06)**	(92)	(1.91)	298	(45)
Net revenue	**26,974**	**77.79**	2,923	61.48	823	27
Operating costs	**1,805**	**5.21**	268	5.63	573	(8)
Transportation expense	**104**	**0.30**	59	1.24	76	(76)
Operating net back	**25,065**	**72.29**	2,596	54.61	866	32
General and administrative costs	**1,446**	**4.17**	546	11.48	165	(64)
Interest expense	**1,328**	**3.83**	5	0.11	nm	nm
Foreign exchange loss (gain) – realized	**(415)**	**(1.20)**	1,476	31.03	(128)	(104)
Risk management loss (gain) – realized	**522**	**1.50**	38	0.80	nm	88
Abandonment costs incurred	–	–	–	–	–	–
Total cash expenses	**2,880**	**8.31**	2,065	43.42	39	(82)
Funds flow from operations	**22,185**	**63.98**	531	11.19	nm	472
Stock based compensation	**377**	**1.09**	–	–	–	–
Depletion and depreciation	**9,915**	**28.60**	1,052	22.13	843	29
Foreign exchange loss (gain) – unrealized	**(11,760)**	**(33.92)**	2,644	55.61	(545)	(161)
Risk management loss (gain) – unrealized	**(377)**	**(1.09)**	(285)	(5.99)	32	(82)
Accretion expense	**144**	**0.42**	155	3.26	(7)	(87)
Future income tax expense	**9,418**	**27.16**	(145)	(3.05)	nm	nm
Total non-cash expenses	**7,718**	**22.26**	3,421	71.95	126	(69)
Net income [1]	**14,467**	**41.72**	(2,890)	(60.76)	(601)	(169)

[1] *Net income excludes abandonment costs incurred.*

Year Ended December 31,	2007 $000s	2007 $/boe	2006 $000s	2006 $/boe	% Change $000s	% Change $/boe
Operating revenue	**48,464**	**73.06**	15,978	67.66	203	8
Interest and other income	**264**	**0.40**	106	0.45	149	(11)
Royalties	**(1,041)**	**(1.57)**	(302)	(1.28)	245	23
Net revenue	**47,687**	**71.89**	15,782	66.83	202	8
Operating costs	**3,836**	**5.78**	1,750	7.41	119	(22)
Transportation expense	**351**	**0.53**	177	0.75	98	(29)
Operating net back	**43,500**	**65.58**	13,855	58.67	214	12
General and administrative costs	**4,143**	**6.25**	1,491	6.31	178	(1)
Interest expense	**2,293**	**3.46**	30	0.13	nm	nm
Foreign exchange loss (gain) – realized	**(1,350)**	**(2.04)**	1,532	6.49	(188)	(131)
Risk management loss (gain) – realized	**1,286**	**1.94**	420	1.78	206	9
Abandonment costs incurred	**8**	**0.01**	(107)	(0.45)	(108)	(103)
Total cash expenses	**6,380**	**9.62**	3,366	14.26	90	(33)
Funds flow from operations	**37,120**	**55.96**	10,489	44.41	254	26
Stock based compensation	**866**	**1.31**	–	–	–	–
Depletion and depreciation	**18,875**	**28.46**	4,428	18.75	326	52
Foreign exchange loss (gain) – unrealized	**(27,714)**	**(41.78)**	2,244	9.50	nm	nm
Risk management loss (gain) – unrealized	**(536)**	**(0.81)**	(14)	(0.06)	nm	nm
Accretion expense	**576**	**0.87**	620	2.63	(7)	(67)
Future income tax expense	**13,870**	**20.91**	946	4.01	nm	nm
Total non-cash expenses	**5,937**	**8.95**	8,224	34.82	(28)	(74)
Net income [1]	**31,191**	**47.02**	2,158	9.14	nm	415

[1] *Net income excludes abandonment costs incurred.*

Production and Sales Volumes

United Kingdom Sales Volumes

December 31,	Three Months Ended 2007	Three Months Ended 2006	Three Months Ended % Change	Year Ended 2007	Year Ended 2006	Year Ended % Change
Production [1]						
Natural gas *(mcf/d)*	**3,342**	902	270	**2,137**	722	196
Oil and NGL *(bbl/d)*	**3,831**	572	570	**1,734**	549	216
Oil equivalent *(boe/d)*	**4,388**	722	508	**2,090**	669	212
Change in Inventory						
Natural gas *(mcf/d)*	–	–	–	–	–	–
Oil and NGL *(bbl/d)*	**619**	205	202	**273**	22	nm
Oil equivalent *(boe/d)*	**619**	205	202	**273**	22	nm
Sales						
Natural gas *(mcf/d)*	**3,342**	902	270	**2,137**	722	196
Oil and NGL *(bbl/d)*	**3,212**	367	775	**1,461**	527	177
Oil equivalent *(boe/d)*	**3,769**	517	629	**1,817**	647	181

[1] *Includes accrued amounts and accrual adjustments. Actual production for the fourth quarter was estimated to be 4,134 boe/d.*

Sales volumes averaged 3,769 boe/d in the fourth quarter of 2007, an increase of 629% compared to the same period of 2006. Sales volumes in the fourth quarter of 2007 were generated from the Kyle, Blane and Enoch fields, all of which were on production for the full fourth quarter of 2007, while sales volumes in the fourth quarter of 2006 were generated by the Kyle field alone. The increase in oil and NGL sales volumes quarter-over-quarter is attributable to higher sales volumes from the Kyle field in the fourth quarter of 2007 and the addition of sales volumes from the Blane and Enoch fields. Oil sales volumes from the Kyle field increased due to the Company receiving its share of two liftings in the fourth quarter of 2007 compared to one lifting in the fourth quarter of 2006. The increase in natural gas sales volumes quarter-over-quarter is attributable to higher sales volumes from the Kyle field and the addition of sales volumes from the Blane and Enoch fields. The installation of a gas lift system designed to optimize and increase production, as well as other mechanical work, resulted in Kyle field natural gas production increasing significantly year-over-year.

Sales volumes averaged 1,817 boe/d for the full year 2007, an increase of 181% compared to the full year 2006. The increase in oil and NGL sales volumes year-over-year is attributable to the inclusion of seven months of production from the Enoch field, approximately three and one-half months of production from the Blane field and higher sales volumes from the Kyle field. The Enoch field commenced first production on May 31, 2007 and the Blane field commenced first production on September 12, 2007. Oil sales volumes from the Kyle field increased due to the Company receiving its share of seven liftings from the Kyle field in the current year compared to five liftings in the prior year. The Company's share of lift quantities at the Kyle field was smaller on average due to the Kyle field relative contribution to multi-field tanker liftings. The increase in natural gas sales volumes year-over-year is attributable to the inclusion of natural gas sales volumes from the Enoch and Blane fields, as well as higher natural gas production from the Kyle field as discussed above.

Sales volumes of 3,769 boe/d in the fourth quarter of 2007 represent an increase of 102% from 1,861 boe/d in the third quarter of 2007. The increase in sales volumes is largely attributable to the inclusion of Blane field sales volumes. Kyle field oil sales volumes increased due to the Company receiving its share of two liftings in the current quarter compared to one lifting in the prior quarter. Enoch field oil sales volumes decreased as a result of third quarter sales figures including an additional month of oil sales (one month of oil production which was in opening inventory). Natural gas sales volumes from the Kyle field increased over the third quarter of 2007 due to the optimization of field operations, while Enoch field natural gas sales were lower than the third quarter as a result of natural declines.

Field production (as compared to sales volumes) increased 508% from 722 boe/d in the fourth quarter of 2006 to 4,388 boe/d in the fourth quarter of 2007. Field production increased 212% from 669 boe/d for the full year 2006 to 2,090 boe/d for the full year 2007. Quarter-over-quarter and year-over-year production increases are attributable to the addition of production from the Enoch and Blane fields in 2007 and production volume increases at the Kyle field due to the installation of a gas lift system and other mechanical work.

At the end of 2007, the Company held approximately 130,300 barrels of oil inventory. Oil inventory is included in current other assets on the Balance Sheet at cost.

The Company estimates its first quarter 2008 production volumes will average between 3,700 to 4,000 boe/d.

Prices

United Kingdom Prices

	Three Months Ended			Year Ended		
December 31,	**2007**	2006	% Change	**2007**	2006	% Change
Natural gas						
BVX *(Cdn$/mcf)*	**4.48**	8.66	(48)	**6.35**	6.33	–
Oil and NGL						
Brent *(US$/bbl)*	**90.60**	60.07	51	**73.55**	65.85	12
BVX *(Cdn$/bbl)*	**87.28**	67.68	29	**81.62**	74.47	10

Net Revenue

Oil and natural gas net revenue of $27.0 million was recorded in the fourth quarter of 2007, an increase of 823% compared to $2.9 million in the fourth quarter of 2006. Oil and natural gas net revenue of $47.7 million was recorded for the full year 2007, an increase of 202% compared to $15.8 million for the full year 2006. Net revenue increased quarter-over-quarter and year-over-year due to sales volume increases as discussed above, combined with higher average realized oil prices. The realized price for natural gas declined 48% quarter-over-quarter as a result of Blane and Enoch field natural gas volumes which are sold on platform at contracted rates below end-market prices, which are lower than the natural gas prices received at the Kyle field. The re-determination of the Kyle natural gas sales price at the end of third quarter also contributed to lower realized natural gas prices. The Kyle field natural gas price is calculated based on a number of factors, including trailing market prices for natural gas which declined from the prior calculation.

Oil and natural gas net revenue increased to $27.0 million in the fourth quarter of 2007, from $12.1 million in the third quarter of 2007, representing an increase of 123% due to higher sales volumes, combined with higher average realized oil prices, offset somewhat by lower realized prices for natural gas as discussed above.

The Company records sales volumes and associated revenues when title passes to an external party. Payments received that relate to future sales are recorded as deferred revenue on the balance sheet until title to the related production passes to the third party purchaser.

Royalties

There are no crown royalties payable on oil or natural gas production in the U.K. The Company is required to pay a gross overriding royalty of $0.10 per barrel on oil sales from the Kyle field to a third party, as well as a 5.5% net profits interest (NPI) based on the results of the Kyle field. For the full year 2007, the royalty and NPI totaled $1.0 million (2006 – $0.3 million).

Operating & Transportation Expense

Operating and transportation expenses for the fourth quarter of 2007 were $1.9 million ($5.51 per boe; $5.21 per boe of operating costs and $0.30 per boe of transportation expense) compared to $0.3 million ($6.87 per boe; $5.63 per boe of operating costs and $1.24 per boe of transportation expense) in the fourth quarter of 2006 representing an increase of 484% (decrease of 20% per boe). Operating and transportation expenses for the full year 2007 were $4.2 million ($6.31 per boe; $5.78 per boe of operating costs and $0.53 per boe of transportation expense) compared to $1.9 million ($8.16 per boe; $7.41 per boe of operating costs and $0.75 per boe of transportation expense) for the full year 2006 representing an increase of 117% (decrease of 23% per boe). The

increase in operating and transportation expenses quarter-over-quarter and year-over-year is due to higher sales volumes. The decrease in operating and transportation expenses per boe quarter-over-quarter and year-over-year is due to the inclusion of sales volumes from the Enoch and Blane fields which have lower average operating and transportation costs per boe than the Kyle field. The increase in the proportion of natural gas production from the Kyle field in 2007 also contributes to lower operating expenses as the Company does not pay a tariff on natural gas production from the Kyle field and therefore operating and transportation expenses per boe are inversely correlated to the proportion of natural gas in the production stream.

Operating and transportation expenses decreased 28% per boe from the third quarter of 2007 due to the inclusion of a full quarter of sales volumes from the Blane field which has a lower average operating and transportation expense per boe than the prior quarter weighted average Kyle and Enoch field operating and transportation expense per boe. Operating costs of $1.2 million relating to oil in inventory have been included in current assets (2006 – $0.1 million).

ALASKA

There is no current production from the Alaska operations and accordingly no revenue is generated.

Late in the fourth quarter of 2006, the Company committed to participate in a multi-year, multi-well exploration program on the North Slope of Alaska. As part of this joint venture, the Company is paying approximately 28.57% of certain capital costs to earn a non-operated 20% working interest in certain lands owned by the joint venture group. During 2007, the Company invested $14.4 million in drilling two exploration wells and acquiring one 3D seismic survey. The Company also spent $1.9 million in capital related to the 2008 winter drilling program.

The 2006/2007 winter drilling program resulted in one oil discovery at North Shore #1 and one dry hole. The North Shore #1 well was re-entered early in 2008. The bottom of the original well was re-drilled in a sidetrack and the Ivishak formation was tested at a stable rate of 2,092 barrels of oil per day ("bopd") of 34° API oil. The North Shore #1 well is located 1,100 feet to the west of, and is interpreted to be in the same Ivishak oil pool as, the Gwydyr Bay South #1 well, which reportedly flowed at a rate of 2,263 bopd on a production test conducted in 1974. In addition to the Ivishak formation, an upper zone in the Sag River formation encountered oil saturated sandstone in the Northshore #1 well. For mechanical reasons, the Sag River formation has not been tested. The joint venture group anticipates additional upside in the untested Sag River formation, as well as in seismically defined offset exploration targets, which may be drilled as part of the 2008 winter drilling program.

In March of 2008, the Tofkat #1 exploration well was drilled to a total depth of 7,703 feet true vertical depth (13,174 feet measured depth). The well encountered several zones which indicated hydrocarbon potential. These zones will be evaluated through logging and testing. A decision has been made to side track the well for appraisal after initial logging and testing is completed.

CANADA

The following discussion applies to the Canadian operations only. The Company entered into an agreement with a third party for the sale of its Canadian oil and natural gas interests which closed on May 31, 2007. Year-to-date 2007 figures include only five months of operational results. Comparative 2006 year-to-date figures are for the full period. The Canadian operations

and results have been accounted for as discontinued operations in the financial statements and notes thereto but are presented in detail in the following section to allow investors and interested parties to better understand the operations and financial results of this discontinued operating segment.

Canadian Revenue, Funds Flow and Net Income (Loss)

	2007		2006		% Change	
Year Ended December 31,	***$000s***	***$/boe***	*$000s*	*$/boe*	*$000s*	*$/boe*
Operating revenue	**12,498**	**50.05**	30,533	46.57	(59)	7
Royalties	**(2,500)**	**(10.01)**	(7,189)	(10.96)	(65)	(9)
Net revenue	**9,998**	**40.04**	23,345	35.60	(57)	12
Operating costs	**2,676**	**10.72**	7,073	10.79	(62)	(1)
Transportation expenses	**289**	**1.16**	616	0.94	(53)	23
Operating net back	**7,033**	**28.16**	15,656	23.88	(55)	18
General and administrative costs	**1,717**	**6.88**	3,071	4.68	(44)	47
Interest expense	**929**	**3.72**	1,028	1.57	(10)	137
Current income tax expense	**2,397**	**9.60**	22	0.03	nm	nm
Costs of disposition	**953**	**3.81**	–	–	–	–
Abandonment costs incurred	**20**	**0.08**	183	0.28	(89)	(72)
Total cash expenses	**6,016**	**24.09**	4,304	6.56	40	267
Funds flow from operations	**1,017**	**4.07**	11,353	17.32	(91)	(76)
Stock based compensation	**402**	**1.61**	–	–	–	–
Depletion and depreciation	**3,607**	**14.44**	14,170	21.61	(75)	(33)
Accretion expense	**119**	**0.48**	232	0.35	(49)	35
Future income tax expense (recovery)	**(5,407)**	**(21.65)**	(1,858)	(2.83)	191	664
Loss on disposition	**11,133**	**44.58**	–	–	–	–
Total non-cash expenses	**9,854**	**39.46**	12,544	19.13	(21)	106
Net income (loss) [1]	**(8,817)**	**(35.31)**	(1,008)	(1.54)	775	2,196

[1] Net income (loss) excludes abandonment costs incurred.

Production and Sales Volumes

No production or sales have been recorded since the sale closed on May 31, 2007. Production recorded prior to the sale of the Canadian oil and natural gas interests (first five months of 2007) averaged 1,654 boe/d, a decrease of 8% compared to the average daily production volume in the year ended December 31, 2006. The decrease in average production volume per day is the result of natural declines and reduced capital spending prior to the sale of the Canadian oil and natural gas interests.

Revenue

No oil and natural gas revenue has been recorded since the sale closed on May 31, 2007. Oil and natural gas revenues recorded prior to the sale of the Canadian oil and natural gas interests (first five months of 2007) totaled $12.5 million. The Company recorded lower average production volumes in 2007 than in the year ended December 31, 2006, but realized higher average natural gas and oil and NGL prices.

Royalties

No royalties have been recorded since the sale closed on May 31, 2007. Royalties recorded prior to the sale of the Canadian oil and natural gas interests (first five months of 2007) totaled $2.5 million. Royalties represented 20% of operating revenue in 2007 compared to 24% of operating revenue in 2006. The decrease in the royalty rate in 2007 relative to 2006 is due to a refund of 2006 capital cost allowance received from the Crown in 2007, offset somewhat by the elimination of the Alberta Royalty Tax Credit in 2007.

Operating & Transportation Expense

No operating and transportation expense has been recorded since the sale closed on May 31, 2007. Operating and transportation expense recorded prior to the sale of the Canadian oil and natural gas interests (first five months of 2007) totaled $3.0 million ($11.88 per boe). Operating and transportation expense per boe increased 1% from $11.73 per boe in 2006 due to general increases in the cost of services and fixed costs being allocated over less production.

General and Administrative Expenses

General and administrative expenses for 2007 totaled $1.7 million, a decrease of 44% compared to $3.1 million in 2006. The decrease in general and administrative expenses year-over-year is attributable to the sale of the Canadian oil and natural gas interests, including the allocation of more common expenses to the U.K. and Alaska operating segments, offset somewhat by higher second quarter indirect sale costs incurred, including severance costs.

Income Tax Expense

The Company recorded a current income tax expense of $2.4 million in 2007 due to a taxable gain related to the sale of its Canadian oil and natural gas interests and a future income tax recovery of $5.4 million due to the reversal of prior year future income tax expense provisions related to the properties sold.

Loss – Discontinued Operations

The Company recorded a loss on disposition of $12.1 million in 2007 which includes disposition costs of approximately $1.0 million. The loss was calculated based on the proceeds received per the final statement of adjustments which was agreed with the purchaser of the Canadian oil and natural gas interests in the fourth quarter of 2007.

CORPORATE

The following discussion applies to the consolidated results of the Company, excluding the Canadian operations which are accounted for as discontinued operations in the financial statements and notes thereto.

Interest and Other Income

The Company recorded interest and other income of $0.9 million in the fourth quarter of 2007, compared to $0.02 million in the fourth quarter of 2006. The Company recorded interest and other income of $1.8 million for the full year 2007, compared to $0.3 million for the full year 2006. Interest income is earned on the Company's Canadian dollar, U.S. dollar and British pound sterling cash deposits. The quarter-over-quarter and year-over-year increase in interest income is due to interest generated from the proceeds of the disposition of the Canadian oil and natural gas interests and from a portion of the funds from the April 5th, 2007 equity issue. The year-over-year

increase in interest income is offset somewhat by the Company recording a cost recovery from its Balal project in the first quarter of 2006 whereas no cost recovery amounts related to this project have been recorded in 2007. The Company does not expect to receive any additional cost recoveries related to this project. Interest and other income increased from $0.8 million in the third quarter of 2007 to $0.9 million in the fourth quarter of 2007 as a result of additional interest income accruals in respect of the Company's ABCP holdings (refer to expanded discussion of ABCP below).

General and Administrative Expenses

	Three Months Ended			Year Ended		
December 31, ($000s)	**2007**	2006	% Change	**2007**	2006	% Change
U.K.	**1,446**	546	165	**4,143**	1,491	178
Alaska	**736**	32	–	**1,524**	32	–
Stock based compensation	**580**	482	20	**1,384**	1,934	(28)
Lawsuit defense costs / judgement	**21**	9	130	**1,816**	1,702	7
Other	**(112)**	9	–	**(89)**	9	–
Total	**2,669**	1,078	148	**8,778**	5,168	70

General and administrative expenses for the fourth quarter of 2007 were $2.7 million, an increase of 148% compared to $1.1 million in the fourth quarter of 2006. General and administrative expenses for the full year 2007 were $8.8 million, an increase of 70% compared to $5.2 million for the full year 2006. Prior to the fourth quarter of 2006, the Company had no oil and natural gas interests in Alaska. The increase in general and administrative expenses quarter-over-quarter and year-over-year is attributable to more common expenses being allocated to the U.K. and Alaska operating segments, in lieu of the Canadian operating segment which is now discontinued. The cost allocation methodology is intended to reflect the benefit of management time and office resources received by each of the operating segments. General and administrative expenses quarter-over-quarter and year-over-year have also increased as a result of hiring more staff to support the U.K. operations. The Company has been active in recruiting additional U.K. technical staff to develop and support the U.K. exploration program.

On May 31, 2007, the Company received judgment on the Balal litigation wherein it was ordered to pay damages of £500,000, plus interest, resulting in a payable of approximately £800,000 (C$1.7 million). Under the judgment, the Company will be liable for a portion of the plaintiff's legal fees, but will also be able to recover a portion of its own legal expenses of defending this action from the plaintiff. A reasonable estimate of the net legal fees expected to be paid or recovered cannot be made at this time. Year-to-date general and administrative expenses include an accrual to record the judgment against the Company. The judgment was appealed by the plaintiff and cross-appealed by the Company in the third quarter of 2007. The appeal hearing is expected to be heard in the first half of 2008.

General and administrative expenses increased from $2.1 million in the third quarter of 2007 to $2.7 million in the fourth quarter of 2007. The increase is mainly attributable to the booking of an additional year-end bonus accrual amount in the fourth quarter of 2007. Stock based compensation expense also increased from the third quarter of 2007 as a result of a greater allocation of the stock based compensation expense to the U.K. and Alaska operating segments and additional fourth quarter stock option grants to company employees.

Interest Expense

The Company recorded $1.3 million of interest expense in the fourth quarter of 2007, compared to $0.005 million in the fourth quarter of 2006. The Company recorded $2.3 million of interest expense for the full year 2007, compared to $0.03 million for the full year 2006. The increase in interest expense quarter-over-quarter and year-over-year is due to interest related to the debt financing of the Enoch and Blane field capital developments being expensed, rather than capitalized, since the fields reached first production. Interest expense increased from $0.2 million in the third quarter of 2007 to $1.3 million in the fourth quarter of 2007 as a result of a third quarter adjustment to reverse the over-recording of interest, combined with the expensing of a full quarter of interest related to the Blane field, and other bank fees incurred in the period. Interest expense is expected to continue to increase as the Company expenses more of its interest costs as its development projects reach first production.

Foreign Exchange

The reporting currency of the Company is Canadian dollars. The Company's wholly-owned subsidiary, Bow Valley Petroleum (UK) Limited, has debt facilities that are denominated in U.S. dollars and British pound sterling (classified as current liabilities). Current U.K. accounts, including accounts payable and accounts receivable, are denominated in British pound sterling, U.S. dollars, Euros and Norwegian kroner. The Company's wholly owned subsidiary, Bow Valley Alaska Corporation, has current accounts that are denominated in U.S. dollars. Both Bow Valley Petroleum (UK) Limited and Bow Valley Energy Ltd. hold foreign currency denominated cash balances. The Company records foreign exchange gains and losses (both realized and unrealized) as a result of rate movements between the time debt, payables, receivables and foreign cash balances are incurred or recorded and the time they are paid or received or valued on the balance sheet dates.

The Company recorded a realized gain of $0.4 million in the fourth quarter of 2007, compared to a realized loss of $1.5 million in the same period of 2006. The Company recorded a realized gain of $0.8 million for the full year 2007, compared to a realized loss of $1.4 million for the full year 2006. The Company recorded an unrealized gain of $11.7 million in the fourth quarter of 2007, compared to an unrealized loss of $2.6 million in the same period of 2006. The Company recorded an unrealized gain of $27.7 million for the full year 2007, compared to an unrealized loss of $2.3 million for the full year 2006.

The realized foreign exchange gain recorded in the fourth quarter and full year of 2007 are due to rate movements between the time working capital amounts were recorded and the time they were paid or received.

The unrealized foreign exchange gain recorded in the fourth quarter and full year of 2007 were driven by the strengthening of the Canadian dollar relative to the U.S. dollar and British pound sterling. The $27.7 million unrealized gain recorded in 2007 is mainly attributable to the revaluation of the Company's U.S. dollar and British pound sterling denominated bank indebtedness which totaled C$137.0 million as at December 31, 2007 and made up approximately $18.5 million of the unrealized gain, combined with the revaluation of the Company's sterling denominated future income tax liability which totaled C$56.7 million as at December 31, 2007 and made up approximately $7.3 million of the unrealized gain. Residual unrealized foreign exchange gains of $1.9 million relate to the revaluation of working capital amounts as at the balance sheet date.

Commodity Risk Management

In conjunction with the Company's bank facilities, Bow Valley has entered into risk management contracts designed to ensure adequate cash flows to service the U.K. loans. In the fourth quarter of 2007, the Company recorded a realized loss of $0.5 million and an unrealized gain of $0.4 million due to risk management contracts. In the same period of last year, the Company recorded a realized loss of $0.04 million and an unrealized gain of $0.3 million. For the full year 2007, the Company recorded a realized loss of $1.3 million and an unrealized gain of $0.5 million. For the full year 2006, the Company recorded a realized loss of $0.4 million and an unrealized gain of $0.01 million. The realized loss in the fourth quarter and full year of 2007 is attributable to the maturity of a risk management put contract in the period (realized loss equal to the premium paid as the right to sell was never exercised). The unrealized gain in the fourth quarter and full year of 2007 is attributable to the reversal of unrealized losses previously recognized on contracts that matured in the period, offset somewhat by unrealized mark-to-market losses on outstanding put contracts not yet matured. The Company had one risk management contract outstanding as at December 31, 2007, which is detailed in note 15 of the financial statements.

Depletion, Depreciation and Amortization

Depletion, depreciation and amortization ("DD&A") expense was $9.9 million ($28.61 per boe) for the fourth quarter of 2007 compared to $1.1 million ($22.67 per boe) for the same period of 2006. DD&A expense was $19.0 million ($28.69 per boe) for the full year 2007 compared to $4.6 million ($19.65 per boe) for the full year 2006. The increase in the DD&A rate per boe quarter-over-quarter and year-over-year is due to increased capital spending at the Kyle field and the addition of the Enoch and Blane field capital costs to the depletable base. The Enoch and Blane fields have a lower ratio of proved reserves per dollar of capital spending than the Kyle field, which increases the depletion on a per boe basis. DD&A expense increased from $5.3 million ($30.71 per boe) in the third quarter of 2007 to $9.9 million ($28.61 per boe) in the fourth quarter of 2007 due to higher sales volumes in the fourth quarter. DD&A expense per boe decreased from the third quarter of 2007 due to reserve reclassifications from the probable category to the proved category in the 2007 year-end reserve report.

Asset Backed Commercial Paper

As at December 31, 2007, the Company had holdings of non-bank sponsored asset backed commercial paper ("ABCP") with a face value of $40.5 million, comprised of $40.3 million in cost basis and $0.2 million in accrued interest. The ABCP was purchased by the Company using a portion of the proceeds from the sale of the Canadian oil and natural gas interests. These investments were rated by DBRS as R-1 (high) when purchased. DBRS defines R-1 (high) rated investments as follows: "Short term debt rated R-1 (high) is of the highest quality, and indicates an entity possessing unquestioned ability to repay current liabilities as they fall due. Entities rated in this category normally maintain strong liquidity positions, conservative debt levels, and profitability that is both stable and above average. Companies achieving an R-1 (high) rating are normally leaders in structurally sound industry segments with proven track records, sustainable positive future results, and no substantial qualifying negative factors. Given the extremely tough definition DBRS has established for an R-1 (high), few entities are strong enough to achieve this rating". DBRS actively monitors the credit quality of the assets held by affected ABCP trusts. The rating of the ABCP trusts held by the Company are currently disclosed as under review on the

DBRS website. In an update on December 18, 2007, DBRS indicated the rating of the underlying assets of the ABCP trusts held by the Company would be AAA quality.

The ABCP was due to mature on September 13, 2007, but was not repaid to the Company due to liquidity issues that arose in the Canadian ABCP market. The Pan-Canadian Investors Committee has been formed to develop a solution to the Canadian ABCP liquidity issue. The arrangements to date include a standstill agreement, whereby holders of ABCP are requested not to enforce default rights, the expiry date of which has been extended a number of times, and was still in effect as of February 29, 2008. The long term proposal currently contemplated is that the ABCP will be converted into term floating rate notes with longer term maturities that closely match the terms of the underlying assets. The Company expects that the proposal being discussed by the Pan-Canadian Committee will be approved. This expectation is based on support of the proposal by several large financial institutions that in aggregate hold sufficient voting rights to cause the proposal to be passed. Under this proposal, groups of assets would be pooled together in exchange for senior and/or junior notes. The quantity and type of notes received will be dependent upon the value of the assets contributed to the pool. Specific information regarding the two classes of notes, and the split between the two, is not available at this time.

ABCP investments were classified and accounted for as held for trading investments on initial recognition. GAAP requires that held for trading investments be carried on the balance sheet at fair value. The carrying value of the Company's investments in ABCP prior to fair valuation was $41.1 million, comprised of the initial cost of $40.3 million plus accrued interest to December 31, 2007 of $0.8 million. Reliable quoted market values for ABCP are not currently available due to the current market disruption. The Company had discussions with a major Canadian financial institution active in the ABCP market in order to obtain trading data for comparable products, however it was felt that the lack of information regarding the underlying assets of the trusts held by the Company and their potential differences to ABCP being traded in the market made comparisons unreliable. As a result, the Company has applied a probability adjusted discounted cash flow approach to fair value its ABCP investments. This approach is based on applying probabilities to account for the uncertainties of expected future cash flows. The Company used a range of recovery probabilities to account for the lack of liquidity and relevant information available in the market place. The discount rate applied in present valuing the ABCP reflects expected interest rates for a AAA rated security.

Several assumptions were applied in determining the fair value of the Company's ABCP holdings. Significant assumptions are as follows:

- Montreal Accord is accepted effective July 1, 2008
- Simple interest is earned from the date of conduit purchase to July 1, 2008 at the yield originally offered by the trust of 4.70%
- A restructuring fee of 1% of total principal plus accrued interest is payable July 1, 2008
- Discount rate for present value calculations is the rate for 5 – 10 year Government of Canada marketable bonds (4.04%)
- Post July 1, 2008, interest is earned at the 5 – 10 year Government of Canada bond rate less 0.77% to cover margin facility fees
- Interest earned is paid in cash at the end of each quarter commencing September 30, 2008
- Equal repayments of principal and simple interest accrued to July 1, 2008 are made in years 2 – 9
- Receive 90% senior note and 10% junior note split

- Junior notes pay no principal or interest unless 100% of principal and interest on senior notes is recovered and paid
- Based on a range of probabilities, recovery of senior note principal ranged from 75% to 100%, while recovery of senior note interest ranged from 0% to 100%
- Based on a range of probabilities, recovery of junior note principal ranged from 0% to 60%, while recovery of junior note interest ranged from 0% to 30%

Applying a probability adjusted discounted cash flow approach, the fair value of the Company's ABCP holdings was determined to be $35.8 million, resulting in a fair value impairment of $5.3 million. This figure represents the Company's best estimate of impairment within a reasonable range of possible fair values. The Company recorded a fair value impairment of $2.4 million in the third quarter of 2007. The additional $2.9 million in the impairment recorded in the fourth quarter is as a result of the weakening economy and worsening global credit conditions.

Evaluation of reasonably possible alternative assumptions to those outlined above could result in significant changes to the fair value. The Company applied restructuring fees ranging from 0.75% to 1.5%, discount rates ranging from 3% to 6%, senior to junior note splits ranging from 80%/20% to 90%/10% respectively, recoveries of senior note principal ranging from 75% to 100%, recoveries of senior note interest ranging from 0% to 100%, recoveries of junior note principal ranging from 0% to 80% and recoveries of junior note interest ranging from 0% to 50% to determine reasonably possible alternative valuations. Fair values ranged from $30.4 million to $38.4 million, representing impairments ranging from $2.7 million to $10.7 million.

Due to the uncertainty regarding the outcome of the Canadian ABCP liquidity issue, it is not possible to accurately determine the fair value of these investments. The fair value of the Company's ABCP could change materially in the future. Fair value calculations are based upon the Company's assessment of prevailing conditions, which may change in subsequent periods. Possible changes that could have a material effect on the fair value of ABCP include differences in the quality of the underlying assets from current expectations, changes stemming from developments related to the liquidity of the ABCP market, the outcome of the conduit restructuring and changes in economic conditions in North America.

These investments have been classified as long term assets on the balance sheet; however, it is the Company's intention to liquidate these investments at a reasonable price should a secondary trading market develop. The Company continues to monitor the situation and will provide updates as necessary.

The ABCP situation has not affected the Company's operations or capital spending plans. The proceeds from the sale of the Company's Canadian oil and natural gas interests were used to repay bank debt associated with the Canadian operations, fund certain expenses of the sale of the Canadian oil and natural gas interests, with the remainder intended to fund future international exploration and/or acquisitions. This residual amount was invested in ABCP. As a result of oil prices remaining at higher than expected levels, growth of cash flow from the Company's U.K. operations and available drawing capacity on the Company's U.K. banking facilities, the Company has had and expects to have sufficient funds to finance the Company's U.K. development capital and exploration programs. The Company has funded its Alaska exploration program to date from existing cash balances. Subsequent to year-end, the Company obtained a credit facility of US$30 million, which is secured by its ABCP holdings and certain guarantees. The US$30 million credit facility is currently being used to provide a letter of credit

to secure the drilling rig being used for the Company's U.K. exploration program and is expected to be available to fund further Alaska exploration expenditures and overhead in the future, as the letter of credit is reduced or released.

Taxes – United Kingdom

The Company recorded a future income tax expense of $9.4 million during the fourth quarter of 2007, compared to a recovery of $0.1 million in the same period of 2006. The Company recorded a future income tax expense of $13.9 million for the full year 2007, compared to an expense of $0.9 million for the full year 2006. The quarter-over-quarter and year-over-year increase in the future income tax expense is attributable to the significant increase in the taxable income generated by the U.K. operations during the same periods.

The Company recorded a future income tax liability of $79.2 million in 2007 with an offsetting increase to U.K. property, plant and equipment to account for the fact that no U.K. tax pools were acquired as part of the Peik acquisition.

The Ring Fence Expenditure Supplement ("RFES") is part of the U.K. Continental Shelf Tax Regime. RFES assists companies that are not cash taxable by increasing the value of eligible unused capital expenditures (tax pools) by a compound 6% per year for a maximum of 6 years. The RFES benefit creates a future income tax asset as the value of tax pools received exceeds eligible capital expenditures by an amount equal to the value of compounding. RFES benefits are recorded as an increase to the future income tax asset and an offsetting reduction in the U.K. cost of property, plant and equipment. During the fourth quarter of 2007, the Company recognized an increase of $3.1 million in the RFES future income tax asset. For the full year 2007, the Company recognized an increase of $12.5 million in the RFES future income tax asset. The RFES future income tax asset recognized is due to capital spending on U.K. exploration and development that is eligible for RFES compounding.

The Company was carrying a future income tax asset of $16.5 million as at December 31, 2006. The future income tax asset was mainly attributable to the estimated benefit of RFES. During 2007, the Company has recorded a future income tax provision related to the U.K. operations, an increase in the future income tax liability in respect of the Peik acquisition, a foreign exchange gain on the revaluation of the U.K. future income tax liability, and booked additional RFES based on 2007 U.K. capital expenditures. As a result, the Company is now carrying a U.K. future income tax liability of $56.7 million as at December 31, 2007.

Taxes – Alaska

Expenditures on certain exploration costs and related losses are ordinarily deductible in computing the petroleum profits tax in the State of Alaska. However, in the situation where a company is not currently subject to the profits tax, the State of Alaska will provide a current cash refund (or credit) for exploration expenditures and losses which would otherwise be deductible in the future against the petroleum profits tax. During the fourth quarter of 2007, the Company did not record any petroleum profits tax refund amounts. During 2007, the Company received a cash refund of $2.4 million from the State of Alaska in respect of the petroleum profits tax which was accounted for as a reduction in the cost of Alaska property, plant and equipment. The refund received relates to the 2006 capital expenditures and loss calculation and eligible 2007 capital expenditures incurred to the end of the second quarter of 2007. The Company will continue to apply for petroleum profits tax refunds as eligible costs and losses are incurred, however the Company does not recognize a receivable or reduction in the cost of Alaska plant, property and

equipment until the State of Alaska commits to provide a cash refund for petroleum profits tax credits granted.

Taxes – Corporate

The Company recorded a future income tax recovery of $0.4 million in 2007 related to the continuing corporate activities of its Canadian parent company.

As at December 31, 2007, the Company is carrying a future tax asset of $2.2 million relating to the valuation of Canadian tax pools retained by the Company post disposition of its Canadian oil and natural gas interests. Residual tax pools are expected to be utilized through losses in future years which can be carried back against the 2007 taxable gain on the disposition of its Canadian oil and natural gas interests.

Net Income (Loss)

The Company recorded net income, excluding discontinued operations, of $11.8 million (income of $0.14 per share) in the fourth quarter of 2007, compared to a net loss, excluding discontinued operations, of $3.4 million (loss of $0.05 per share) in the same period of 2006. Quarter-over-quarter net income growth from continuing operations is attributable to increased net revenues generated by the U.K. operations. The Enoch field commenced production on May 31, 2007 and the Blane field commenced production on September 12, 2007. The increase in net income also reflects significant unrealized foreign exchange gains recorded in the fourth quarter of 2007.

The Company recorded net income, including discontinued operations, of $11.0 million (income of $0.13 per share) in the fourth quarter of 2007, compared to a net loss, including discontinued operations, of $5.3 million (loss of $0.08 per share) in the same period of 2006. Quarter-over-quarter net income growth from operations including discontinued operations is attributable to increased net revenues generated by the U.K. operations and significant unrealized foreign exchange gains recorded in the fourth quarter of 2007, offset somewhat by a fourth quarter loss on discontinued operations mainly due to an increase in the expected current tax payable on the disposition of the Company's oil and natural gas interests.

Drilling Activity

	United Kingdom		Alaska	
	Gross	Net	Gross	Net
Oil	2	0.24	1	0.20
Natural gas	–	–	–	–
Abandoned	–	–	–	–
Suspended	–	–	1	0.20
Service	1	0.12	–	–
Total	3	0.36	2	0.40

Land

	Producing		Non-producing	
(acres)	Gross	Net	Gross	Net
United Kingdom	21,251	3,175	144,927	83,645
Alaska	–	–	295,993	59,199
Total	21,251	3,175	440,920	142,844

Capital Costs

December 31, ($000s)	Three Months Ended 2007	2006	% Change	Year Ended 2007	2006	% Change
UNITED KINGDOM						
Acquisitions	–	1,333	–	**79,153**	1,333	nm
Land & lease costs	–	–	–	**1,333**	–	–
Development	**18,160**	42,130	(57)	**85,368**	73,677	16
Exploration	**2,233**	1,706	31	**3,068**	6,963	(56)
Capitalized interest	**3,275**	3,866	–	**11,296**	6,816	66
Other	**7**	–	–	**61**	–	–
Total United Kingdom	**23,675**	49,035	(52)	**180,279**	88,789	103
ALASKA						
Exploration	**2,149**	–	–	**16,312**	1,859	777
Total [1]	**25,824**	49,035	(47)	**196,591**	90,648	117

[1] *Total excludes non-cash changes to property, plant and equipment.*

Liquidity and Capital Resources

At December 31, 2007, Bow Valley had a working capital deficiency including bank debt of $131.4 million. The Company's bank facilities are classified as short-term liabilities because they are reviewed semi-annually, however the Company is confident, based on conversations with its bank and other international financial institutions, that credit facilities equal to or greater than current levels, will continue to be extended to the Company throughout 2008. The Company currently expects cash flow to exceed non-discretionary capital expenditures in 2008. In addition, the Company has an undrawn credit facility of US$30 million which is secured by its ABCP holdings and certain guarantees. The US$30 million credit facility is currently being used to provide a letter of credit to secure the drilling rig being used for the Company's U.K. exploration program, however this letter of credit is expected to be released by the end of the first quarter of 2008. Exploration and/or acquisitions may be financed through cash flow, new debt facilities, or the issue of additional equity.

The Company has credit facilities with the Bank of Scotland totaling US$150 million which consists of a US$125 million senior debt facility and a US$25 million mezzanine debt facility. The Company also has a term debt facility of £17.5 million with the Bank of Scotland which was established to finance a portion of the purchase price of the Peik field (refer to Acquisition discussion below). As at December 31, 2007, US$106 million was drawn on the senior and mezzanine debt facilities and £16.1 million was drawn on the term debt facility. The Company reported bank indebtedness of $137.0 million as at December 31, 2007. The Company had 86.1 million shares outstanding and 4.1 million options outstanding as at December 31, 2007. The Company had 86.1 million shares outstanding and 4.4 million options outstanding as at March 10, 2008.

The Company's capital commitments in respect of its U.K. field developments are detailed in note 18 of the financial statements.

Acquisition

On March 15, 2007, the Company announced the acquisition of a U.K. North Sea development asset (the "Peik Acquisition"). The purchase closed on May 15, 2007. The Company acquired, through its wholly owned subsidiary, Bow Valley Petroleum (UK) Limited, an undivided legal

interest in U.K. petroleum production license no. P.090, comprised of a 66.67% working interest in U.K. Block 9/15a, which contains a portion of the Peik field, and a 15.00% working interest in Block 9/10b West located in the U.K. sector of the North Sea, for a purchase price of £34.6 million (C$76.1 million). To finance the transaction, the Company agreed to the terms of a £17.5 million term debt facility and entered into a bought deal financing for the issuance of 11.0 million subscription receipts at a price of $5.95 per subscription receipt for gross proceeds of $65.45 million. These subscription receipts were converted to common shares upon the closing of the transaction on May 15, 2007. A future income tax liability of $79.2 million was recorded in the year ended December 31, 2007 (with an offsetting increase to property, plant and equipment) to account for the fact that no U.K. tax pools were acquired as part of the transaction.

Disposition

On April 30, 2007, the Company entered into an agreement with a third party for the sale of its Canadian oil and natural gas interests. The sale price was $74.25 million, subject to normal closing adjustments. The sale closed on May 31, 2007 and the Company no longer owns any Canadian oil and natural gas interests. The results of the Canadian operations have been accounted for as discontinued operations in the financial statements. Details of the transaction are outlined in note 4 of the financial statements.

Selected Financial Information

	Including Discontinued Operations			Excluding Discontinued Operations		
	Net Revenues *($000s)*	Net (Loss) *($000s)*	Net Income (Loss) Per Share Basic *($)* / Diluted	Net Revenues *($000s)*	Net (Loss) *($000s)*	Net Income (Loss) Per Share Basic *($)* / Diluted
2007						
First quarter	**9,374**	**(7,862)**	**(0.09) / (0.09)**	**4,148**	**529**	**0.01 / 0.01**
Second quarter	**9,291**	**3,606**	**0.04 / 0.04**	**4,519**	**4,203**	**0.05 / 0.05**
Third quarter	**12,864**	**7,716**	**0.10 / 0.10**	**12,864**	**6,749**	**0.10 / 0.09**
Fourth quarter	**27,658**	**11,027**	**0.13 / 0.13**	**27,658**	**11,823**	**0.14 / 0.14**
Total	**59,187**	**14,487**	**0.17 / 0.17**	**49,189**	**23,304**	**0.29 / 0.29**
2006						
First quarter	10,788	1,141	0.02 / 0.02	3,357	419	0.01 / 0.01
Second quarter	9,101	612	0.01 / 0.01	3,427	17	0.00 / 0.00
Third quarter	11,541	1,047	0.01 / 0.01	6,254	1,461	0.02 / 0.02
Fourth quarter	7,877	(5,320)	(0.08) / (0.08)	2,925	(3,409)	(0.05) / (0.05)
Total	39,307	(2,520)	(0.04) / (0.04)	15,963	(1,512)	(0.02) / (0.02)
2005						
First quarter	14,962	1,290	0.02 / 0.02	9,276	1,139	0.02 / 0.02
Second quarter	13,011	1,445	0.02 / 0.02	5,868	(156)	(0.00) / (0.00)
Third quarter	12,054	584	0.01 / 0.01	4,546	(179)	(0.00) / (0.00)
Fourth quarter	13,925	3,159	0.05 / 0.05	3,120	540	0.01 / 0.01
Total	53,952	6,478	0.10 / 0.10	22,810	1,344	0.02 / 0.02

As at December 31, ($000s)	**2007**	2006	2005
From continuing operations			
Total assets	**437,527**	152,634	50,744
Bank indebtedness and long term liabilities	**197,872**	58,647	10,951

Controls

The Company has established disclosure controls, procedures and corporate policies that are designed to provide reasonable assurance that all material information required to be disclosed in reports filed or submitted under applicable securities regulations is accumulated and communicated to our management, including our President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management recognizes that all internal control systems, no matter how well designed, have inherent limitations. Therefore, management has concluded that these systems provide reasonable, but not absolute assurance, that financial information is accurate and complete in all material respects. Any control system, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives of the control system are met.

The Company's President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as at the end of the of the period covered by the Company's annual filings and have concluded, based on their evaluation, that the disclosure controls and procedures provide reasonable assurances that all material information required to be disclosed by the Company is accumulated and communicated to management.

The Company's President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer confirm there have been no changes in the Company's internal control over financial reporting that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook/Business Risks

Fourth quarter production, cash flow and earnings have all grown substantially, exceeding the cumulative total of the previous three quarters. With Chestnut scheduled to come on stream in the second quarter of 2008 and Ettrick scheduled to come on stream in the third quarter of 2008, continued growth in production, cash flow and earnings are expected to continue throughout 2008.

While production and cash flow are growing, capital spending on the Company's U.K. development assets is dropping significantly. 2008 capital expenditures for the Company's interests in its development assets are estimated to be approximately $50 million, well less than the $85.4 million spent in 2007. Cash flow in excess of capital expenditures will be used to fund a growing exploration program, repay bank debt and fund other potential projects. The Company is currently forecasting total capital expenditures in 2008 of approximately $110 – $115 million, consisting of $50 million of U.K. development expenditures, $50 million of U.K.

exploration expenditures, $13 million of Alaska exploration expenditures and $2 million of other capital expenditures. The timing of capital expenditures is dependent upon many factors, such as weather and availability of services, which could lead to acceleration or delays in capital spending from what is currently contemplated. The cost of services has experienced significant inflation in recent years and this trend may continue into 2008.

Planned capital spending is expected to be funded out of cash flow from operations and available bank facilities. Should current banking facilities be reduced or become unavailable, the Company would seek other sources of funding, which may include new banking facilities, other forms of debt, or new equity. The Company continues to evaluate potential acquisition opportunities, which would be funded through a combination of new debt and equity.

The Company's production is, and will continue to be throughout 2008, largely weighted to fields with little production history, making forecasting difficult. While production from numerous fields reduces the risk relative to production from a single field, it is possible the fields may experience production interruptions due to weather, facilities issues or other matters. Natural declines may also differ from expectations, resulting in production and/or reserves being different than estimated and those differences could be material.

The Company has embarked upon an exploration program in both Alaska and the U.K. sector of the North Sea. Exploration carries greater risk than project developments in many ways, including the potential for higher costs, and greater volatility of drilling results.

The Company has $40.3 million invested in ABCP, as discussed previously in this MD&A. Although the Company expects a positive resolution to the ABCP liquidity issues, potential solutions, the timing thereof, and changes in the global credit market could result in outcomes that may vary from current expectations and those variances could be material. The Company's operations and capital expenditure forecast are expected to be funded out of cash flow from operations and current banking facilities, and therefore the Company's growth plans are not dependant upon a resolution of the ABCP situation.

The Company expects commodity prices to continue above long-term averages with high levels of volatility, reflecting tight supply and demand fundamentals. World political events, which are impossible to predict, will continue to influence both oil and natural gas prices. High commodity prices have created strong global demand for oil and natural gas services, resulting in significant cost pressures for these services. Higher costs have a negative effect on the investment returns received on the Company's projects, while reduced availability of services can lead to project delays.

The Company's financial and operating results are influenced by currency exchange rates between the Canadian dollar, U.S. dollar, British pound sterling, Euros, and Norwegian kroner. The Company has mitigated some its currency risk by diversifying its borrowings to include U.S. dollar and British pound sterling denominated debt.

Additional information in respect of the Company's risks may be found in the Annual Information Form which is filed on the SEDAR website at www.sedar.com or on the Company's website at www.bvenergy.com.

Management's Report

THE ACCOMPANYING CONSOLIDATED FINANCIAL STATEMENTS of Bow Valley Energy Ltd. and all other financial and operating information contained in this Report are the responsibility of management. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes to the consolidated financial statements and in accordance with generally accepted accounting principles in Canada.

The Company's systems of internal control have been designed and maintained to provide reasonable assurance that assets are properly safeguarded and that the financial records are sufficiently well maintained to provide relevant, timely and reliable information to management. External auditors, appointed by the shareholders, have independently examined the consolidated financial statements in accordance with generally accepted auditing standards in Canada. They have performed such tests as they deemed necessary to enable them to express an opinion on these consolidated financial statements.

An Audit Committee of the Board of Directors has reviewed these consolidated financial statements with management and the external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

Robert G. Moffat
President & Chief Executive Officer

Matthew L. Janisch
Vice President, Finance & Chief Financial Officer

March 10, 2008

Auditors' Report

TO THE SHAREHOLDERS OF BOW VALLEY ENERGY LTD.

We have audited the consolidated balance sheets of Bow Valley Energy Ltd. (the "Company") as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive income (loss) and deficit and cash flows for each of the years in the two year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Calgary, Canada

March 10, 2008

Consolidated Balance Sheets

December 31, ($000s)	**2007**	2006
ASSETS		
Current assets		
Cash and cash equivalents	**$ 24,359**	$ 18,201
Accounts receivable	**24,974**	3,783
Inventory and other *(note 8)*	**4,742**	944
Discontinued operations *(note 4)*	**–**	5,923
	54,075	28,851
Asset backed commercial paper investments *(note 5)*	**35,816**	–
Property, plant and equipment *(notes 6 & 7)*	**347,636**	110,150
Future income tax asset *(note 11)*	**–**	18,820
Other assets *(note 8)*	**–**	736
Discontinued operations *(note 4)*	**–**	86,819
	$ 437,527	$ 245,376
LIABILITIES		
Current liabilities		
Accounts payable	**$ 43,002**	$ 37,351
Deferred revenue	**5,475**	–
Risk management *(note 15)*	**–**	82
Bank indebtedness *(note 9)*	**137,016**	50,926
Discontinued operations *(note 4)*	**–**	31,889
	185,493	120,248
Asset retirement obligation *(note 10)*	**6,431**	7,721
Future income tax liability *(note 11)*	**54,425**	–
Discontinued operations *(note 4)*	**–**	10,921
SHAREHOLDERS' EQUITY		
Share capital *(note 13)*	**188,543**	118,302
Contributed surplus *(note 12)*	**3,305**	3,341
Deficit	**(670)**	(15,157)
	191,178	106,486
	$ 437,527	$ 245,376

Commitments *(note 18)*

Contingencies *(note 19)*

Approved by the Board,

Daryl K. Seaman
Director

Jack W. Peltier
Director

Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit

Year ended December 31, ($000s)	**2007**	2006
Revenue		
Operating	**$ 48,464**	$ 15,978
Interest and other	**1,766**	286
Royalties	**(1,041)**	(302)
	49,189	15,963
Expenses		
Operating	**3,836**	1,751
Transportation	**351**	177
General and administrative	**7,394**	3,234
Stock based compensation	**1,384**	1,934
Interest	**2,293**	31
Foreign exchange loss (gain) – realized *(note 16)*	**(761)**	1,432
Foreign exchange loss (gain) – unrealized *(note 16)*	**(27,650)**	2,303
Risk management loss (gain) – realized *(note 15)*	**1,286**	420
Risk management loss (gain) – unreaiized *(note 15)*	**(536)**	(14)
Depletion, depreciation and amortization	**19,027**	4,641
Accretion	**579**	620
Asset backed commercial paper fair value loss (gain) – unrealized *(note 5)*	**5,251**	–
	12,454	16,529
Net income (loss) before tax	**36,735**	(566)
Taxes		
Current income tax expense (recovery) *(note 11)*	**–**	–
Future income tax expense (recovery) *(note 11)*	**13,431**	946
	13,431	946
Net income (loss) before discontinued operations	**23,304**	(1,512)
Discontinued operations (net of tax) *(note 4)*	**(8,817)**	(1,008)
Net income (loss) and comprehensive income (loss)	**14,487**	(2,520)
Deficit		
Beginning of the period	**(15,157)**	(12,637)
End of the period	**$ (670)**	$ (15,157)
Earnings (loss) per share *(note 14)*		
Basic and diluted from **continuing operations**	**$ 0.29**	$ (0.02)
Basic and diluted from **discontinued operations**	**(0.11)**	(0.02)
Basic and diluted	**0.17**	(0.04)

Consolidated Statements of Cash Flows

Year ended December 31, ($000s)	2007	2006
Operating Activities		
Net income (loss) from continuing operations	$ 23,304	$ (1,512)
Non-cash items		
Foreign exchange loss (gain) – unrealized	(27,650)	2,303
Risk management loss (gain) – unrealized	(536)	(14)
Depletion, depreciation and amortization	19,027	4,641
Accretion	579	620
Stock based compensation	1,384	1,934
Future income tax expense (recovery)	13,431	946
Asset backed commercial paper fair value loss (gain) – unrealized	5,251	–
Abandonment costs	(8)	107
Funds flow from continuing operations	34,781	9,024
Change in other long-term assets	–	(617)
Net change in non-cash working capital – continuing operations	(11,982)	32,985
Operating cash flow from continuing operations	22,799	41,393
Funds flow from discontinued operations	1,017	11,353
Net change in non-cash working capital – discontinued operations	769	3,663
Operating cash flow from discontinued operations	1,786	15,016
Operating cash flow	24,585	56,409
Investing Activities		
Acquisition of property, plant and equipment	(194,239)	(90,648)
Purchase of investment in asset backed commercial paper	(40,320)	–
Net change in non-cash working capital	1,420	(1,717)
Investing cash flow from continuing operations	(233,139)	(92,365)
Disposition (acquisition) of property, plant and equipment – discontinued operations	67,764	(30,821)
Net change in non-cash working capital – discontinued operations	228	(3,061)
Investing cash flow from discontinued operations	67,992	(33,882)
Investing cash flow	(165,147)	(126,248)
Financing Activities		
Issue of class A common shares for exercise of options	4,980	939
Issue of class A common shares	65,450	16,965
Share issue costs	(2,833)	(969)
Bank indebtedness	104,581	47,436
Financing cash flow from continuing operations	172,178	64,371
Bank indebtedness – discontinued operations	(25,458)	20,102
Financing cash flow	146,720	84,472
Increase in cash	6,158	14,633
Cash and cash equivalents, beginning of period	18,201	3,568
Cash and cash equivalents, end of period	$ 24,359	$ 18,201
Cash flow supplemental information – cash paid		
Capital taxes paid	–	22
Interest paid – continuing operations	11,788	1,241
Interest paid – discontinued operations	929	631
Interest paid	12,717	1,872

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

1. **Description of Business**

Bow Valley Energy Ltd. (the "Company") is incorporated under the Business Corporations Act (Alberta) and is a public company listed on the Toronto Stock Exchange. Bow Valley Energy Ltd. is an oil and natural gas exploration, development and production company with operations in Alaska and the U.K. sector of the North Sea. On May 31, 2007, the Company disposed of its Canadian oil and natural gas interests.

2. **Significant Accounting Policies**

The consolidated financial statements of the Company have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

Management estimates and measurement uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions regarding certain assets, liabilities, revenues and expenses. Such estimates include those related to unsettled transactions and events as of the date of the financial statements. Others include estimates related to depletion, depreciation, amortization, accretion, asset retirement obligations, future income taxes, the ceiling test, the fair valuation of financial instruments, and litigation. Actual results may differ from estimated amounts.

Significant accounting policies are summarized as follows:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

(b) Cash and cash equivalents

Cash and cash equivalents include interest-bearing short-term investments with maturity of three months or less when purchased.

Cash flows arising from risk management activities are classified as operating activities in the Consolidated Statement of Cash Flows.

(c) Property, plant and equipment

The Company follows the full cost method of accounting for oil and natural gas activities, whereby all costs associated with the exploration for and development of oil and natural gas reserves are capitalized and accumulated in country-by-country cost centres. Such costs include land acquisition, geological and geophysical, drilling productive and non-productive wells, capitalized interest, plant, equipment and the carrying costs of unproven properties.

Gains or losses on sales of properties are recognized only when crediting the proceeds to capitalized costs would result in a change of 20% or more in the depletion rate.

Depletion and depreciation of properties and equipment is provided using the unit-of-production method based on the Company's share of proved oil and natural gas reserves before royalties, as determined by independent engineers, for each country. Production and reserves of natural gas are converted to barrels of oil equivalent (boe) using an energy equivalent basis of six thousand cubic feet of natural gas to one barrel of oil equivalent (6 mcf = 1 boe). In determining its depletion base, the Company includes

estimated future costs to be incurred in developing proved reserves, as estimated by independent engineers. The Company excludes the costs and reserves associated with major development projects and the costs of acquiring and evaluating unproved properties.

Unproved properties are withheld from costs subject to depletion and depreciation until it is determined that proved reserves are attributable, or impairment has occurred. Unproved properties are assessed for impairment at each reporting period. If an impairment loss is determined, the amount is transferred to costs subject to depletion and depreciation in cost centres where proved reserves exist. In cost centres where no proved reserves have been established, the impairment loss is charged directly to earnings.

At each reporting period for cost centres where proved reserves exist, the Company applies a ceiling test to determine if capitalized costs relating to its petroleum and natural gas properties are impaired. The cost centres are tested for recoverability by comparison to undiscounted estimated future net revenues (cash flows) from proved reserves using forecast prices, plus the unimpaired cost of unproved properties. When the carrying amount of a cost centre is not recoverable, the cost centre is written down to its estimated fair value.

Other capital assets are depreciated on a declining balance basis with rates ranging from 20% to 100%.

(d) Inventories

Petroleum product inventories are valued at the lower of cost and net realizable value on an average cost basis.

(e) Goodwill

Goodwill, which represents the excess of purchase price over estimated fair value of net assets received, is not amortized but is assessed at least annually for impairment. To assess impairment, the fair value of the reporting unit is estimated and compared to the book value of the reporting unit. If the fair value is less than the book value, the amount of the impairment is determined by deducting the fair value of the reporting unit's identifiable assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impaired amount.

(f) Asset retirement obligation

The Company recognizes the estimated fair value of an asset retirement obligation (ARO) in the period in which it is incurred and when a reasonable estimate of the fair value can be made. The obligations recognized are legal obligations for the abandonment and reclamation of long lived assets such as well sites. The fair value of the estimated ARO is recorded as a liability, with a corresponding increase in the carrying amount of the related long-lived asset. ARO obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes to the underlying cash flows. The related capitalized asset amount is depleted on a unit-of-production basis as part of the associated full cost pool over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and the

amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost result in an increase or decrease to the ARO and the related long-lived asset. Actual costs incurred are charged against the ARO to the extent of the recorded liability.

(g) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax effects of the differences between the amounts reported in the financial statements and the respective tax basis, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period the change occurs.

Estimated future tax benefits related to losses and unclaimed costs for tax purposes are recognized as assets and in income, once it appears more likely than not that they will ultimately be realized.

(h) Stock option plan

The Company has a stock-based compensation plan that allows employees, consultants, and directors to purchase its common shares. Option exercise prices approximate the five day weighted average market price of common shares prior to the date options are issued. Options granted under the plan vest over three years and expire five years after the grant date.

Stock based compensation expense is determined based on the estimated fair value of options on the date of grant. The fair value of options granted is estimated using the Black-Scholes option-pricing model. Factors used in this model include expected volatility, expected dividends, and risk-free interest rates.

The compensation expense is recognized in earnings over the vesting period, with a corresponding increase to contributed surplus.

Consideration paid upon the exercise of the stock options is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus. Forfeitures are accounted for as they occur, which results in a reduction to compensation expense.

No amount of stock based compensation expense has been capitalized.

(i) Revenue recognition

Revenues from the sale of crude oil, natural gas and natural gas liquids are recorded when title passes to an external party. Payments received that relate to future sales are recorded as deferred revenue on the balance sheet until title to the related production passes to the third party purchaser.

(j) Joint ventures

Substantially all of the Company's oil and natural gas exploration and development activities are conducted jointly with others. The accounts reflect the Company's proportionate interest in such activities.

(k) Foreign currency translation

The Company uses the temporal method for translating its foreign currency accounts and integrated foreign subsidiaries to Canadian dollars. Under this method, all monetary

asset and liability accounts are translated to Canadian dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at the exchange rate in effect when the assets were acquired or obligations incurred.

Revenues and expenses are translated to Canadian dollars at the monthly average exchange rate. Provisions for depletion, depreciation, and asset retirement obligation are translated at the same rate as the related balance sheet items. Foreign exchange gains and losses are included in earnings.

(l) Comparative amounts

Certain comparative figures have been reclassified to conform with current year presentation.

(m) Changes in accounting policies

Effective January 1, 2007, the Company adopted the following standards previously issued by the Canadian Accounting Standards Board ("AcSB"). In accordance with the transitional provisions of these standards, the changes were adopted prospectively (if applicable), with no restatement of prior periods. No impact to the earnings or cash flows of the Company were identified upon adoption.

Section 3855 – Financial Instruments, Recognition and Measurement and Section 3861 – Financial Instruments, Disclosure and Presentation

These standards require that all financial instruments must initially be recognized at fair value on the balance sheet. Subsequent measurement of financial instruments is based on their categorization. Unrealized gains and losses on held-for-trading financial instruments are recognized in earnings. Gains and losses on available-for-sale financial assets are recognized in other comprehensive income and transferred to earnings when the asset is derecognized. Held to maturity investments, loans and receivables, and other financial liabilities are recognized at amortized cost using the effective interest method.

The Company may enter into forward commodity contracts designed to improve risk-adjusted returns and ensure adequate cash flows to service its bank loans. Consistent with the December 31, 2006 financial statements and these new standards, these derivative contracts are marked-to-market at each reporting period with the change in fair value recorded as a risk management gain or loss in earnings (refer to note 15). There were no significant differences between the carrying values and estimated market values of other financial instruments requiring fair valuation as at December 31, 2007, with the exception of non-bank sponsored asset backed commercial paper, the fair valuation of which is discussed in note 5. The Company did not record any assets or liabilities as a result of embedded derivatives as at December 31, 2007.

Section 1530 – Comprehensive Income and Section 3251 – Equity

Comprehensive income consists of net earnings and other comprehensive income ("OCI"). OCI comprises changes in the fair value of available-for-sale financial instruments, changes in the fair value of the effective portion of derivatives used as hedging items, and foreign currency translation adjustments relating to self sustaining operations. Accumulated OCI ("AOCI") is a separate category of equity which tracks the cumulative amount of OCI.

No amounts have been recorded in OCI or AOCI upon adoption of this standard or during the year ended December 31, 2007.

Section 3865 – Hedges

This standard explains the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting.

The adoption of this standard had no impact to the Company as it currently has no transactions designated as hedges.

Section 1506 – Accounting Changes

This standard provides criteria for identifying when changes in accounting policy are appropriate, along with the treatment and disclosure of accounting policy changes, changes in accounting estimates and correction of errors.

Adoption of this standard requires the Company to provide disclosure when a new source of GAAP which is issued, but is not yet effective, has not yet been applied. The Company now discloses upcoming accounting pronouncements (refer to note 3) as a result of adopting this standard. No accounting policy changes, other than those identified in this section, were made by the Company during the current year.

3. Upcoming accounting pronouncements

The following accounting pronouncements have been issued by the AcSB, but were not in effect at the date of the current financial statements. These pronouncements may have an impact on the Company's future financial reporting.

Section 3031 – Inventories

Effective January 1, 2008, the Company will be required to adopt this standard, which provides revised guidance on measurement and disclosures for inventories. The Company does not expect this standard to have any impact upon adoption, as its current inventory policies continue to be permitted under the revised standard.

Section 1535 – Capital Disclosures

Effective January 1, 2008, the Company will be required to adopt this standard, which provides guidance on disclosure of an entity's objectives, policies and processes for managing capital. The Company will add the additional disclosures required as a result of adopting this standard.

Section 3862 – Financial Instruments, Disclosures and Section 3863 – Financial Instruments, Presentation

Effective January 1, 2008, the Company will be required to adopt these standards, which replace existing GAAP section 3861. These standards provide guidance on the disclosure of an entity's risks associated with financial instruments and how those risks are managed, as well as detailed guidance on the presentation and classification of financial instruments. The Company will add the additional disclosures required as a result of adopting these standards.

Section 3064 – Goodwill and Intangible Assets

Effective January 1, 2009, the Company will be required to adopt this standard, which replaces GAAP sections 3062 and 3450. This standard provides guidance relating to the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company will be assessing the impact of this standard in the near future.

Convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS")

On February 13, 2007, the AcSB confirmed that publicly accountable profit-oriented enterprises will be required to use IFRS in interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Due to the extended period of time until expected implementation, the Company cannot assess the impact of IFRS standards at this time.

4. Discontinued Operations

On April 30, 2007, the Company entered into an agreement with a third party for the sale of its Canadian oil and natural gas interests. The sale price was $74.25 million, subject to normal closing adjustments. The sale closed on May 31, 2007. As at December 31, 2007, the Company no longer owns any Canadian oil and natural gas interests. As a result, the Canadian operations have been accounted for as discontinued operations in accordance with GAAP. Results of the Canadian operations have been included in the financial statements up to the closing date of the sale (the date control was transferred to the purchaser).

The Company used a portion of the cash proceeds from the sale to discharge the $25.5 million of Canadian bank debt outstanding at the closing date of the sale which was related to the Canadian oil and natural gas operations.

The Company recorded a loss on disposition of $12.1 million in 2007 which includes disposition costs of approximately $1.0 million. The loss was calculated based on the proceeds received per the final statement of adjustments which was agreed with the purchaser of the Canadian oil and natural gas interests in the fourth quarter of 2007.

The Company recorded a current income tax expense of $2.4 million in 2007 due to a taxable gain related to the sale of its Canadian oil and natural gas interests and a future income tax recovery of $5.4 million due to the reversal of prior year future income tax expense provisions related to the properties sold.

Discontinued operations as at December 31, 2006, included accounts receivable of $5.9 million, property, plant, and equipment of $78.3 million, and goodwill of $8.5 million. Discontinued operations also included accounts payable of $6.4 million, bank indebtedness of $25.5 million, asset retirement obligations of $4.2 million and a future income tax liability of $6.7 million.

The following amounts have been included in the December 31, 2007 consolidated statement of operations, comprehensive income (loss) and deficit in respect of discontinued operations:

Year Ended December 31, ($000s)	**2007**	2006
Revenue		
Operating	**$ 12,498**	$ 30,533
Royalties	**2,500**	7,189
	9,998	23,345
Expenses		
Operating	**2,676**	7,073
Transportation	**289**	616
General and administrative	**1,717**	3,071
Stock based compensation	**402**	–
Interest	**929**	1,028
Depletion and depreciation	**3,607**	14,170
Accretion	**119**	232
	9,739	26,189
Loss on disposition	**12,086**	–
Income (loss) – discontinued operations before tax	**(11,827)**	(2,844)
Taxes		
Current income tax expense	**2,397**	22
Future income tax expense (recovery)	**(5,407)**	(1,858)
Income (loss) – discontinued operations	**$ (8,817)**	$ (1,008)

5. **Investments**

As at December 31, 2007, the Company had holdings of non-bank sponsored asset backed commercial paper ("ABCP") with a face value of $40.5 million, comprised of $40.3 million in cost basis and $0.2 million in accrued interest. The ABCP was purchased by the Company using a portion of the proceeds from the sale of the Canadian oil and natural gas interests. These investments were rated by DBRS as R-1 (high) when purchased. DBRS defines R-1 (high) rated investments as follows: "Short term debt rated R-1 (high) is of the highest quality, and indicates an entity possessing unquestioned ability to repay current liabilities as they fall due. Entities rated in this category normally maintain strong liquidity positions, conservative debt levels, and profitability that is both stable and above average. Companies achieving an R-1 (high) rating are normally leaders in structurally sound industry segments with proven track records, sustainable positive future results, and no substantial qualifying negative factors. Given the extremely tough definition DBRS has established for an R-1 (high), few entities are strong enough to achieve this rating". DBRS actively monitors the credit quality of the assets held by affected ABCP trusts. The rating of the ABCP trusts held by the Company are currently disclosed as under review on the DBRS website. In an update on December 18, 2007, DBRS indicated the rating of the underlying assets of the ABCP trusts held by the Company would be AAA quality.

The ABCP was due to mature on September 13, 2007, but was not repaid to the Company due to liquidity issues that arose in the Canadian ABCP market. The Pan-Canadian Investors Committee has been formed to develop a solution to the Canadian ABCP liquidity issue. The

arrangements to date include a standstill agreement, whereby holders of ABCP are requested not to enforce default rights, the expiry date of which has been extended a number of times and was still in effect as of February 29, 2008. The long term proposal currently contemplated is that the ABCP will be converted into term floating rate notes with longer term maturities that closely match the terms of the underlying assets. The Company expects that the proposal being discussed by the Pan-Canadian Committee will be approved. This expectation is based on support of the proposal by several large financial institutions that in aggregate hold sufficient voting rights to cause the proposal to be passed. Under this proposal, groups of assets would be pooled together in exchange for senior and/or junior notes. The quantity and type of notes received will be dependent upon the value of the assets contributed to the pool. Specific information regarding the two classes of notes, and the split between the two, is not available at this time.

ABCP investments were classified and accounted for as held for trading investments on initial recognition. GAAP requires that held for trading investments be carried on the balance sheet at fair value. The carrying value of the Company's investments in ABCP prior to fair valuation was $41.1 million, comprised of the initial cost of $40.3 million plus accrued interest to December 31, 2007 of $0.8 million. Reliable quoted market values for ABCP are not currently available due to the current market disruption. The Company had discussions with a major Canadian financial institution active in the ABCP market in order to obtain trading data for comparable products, however it was felt that the lack of information regarding the underlying assets of the trusts held by the Company and their potential differences to ABCP being traded in the market made comparisons unreliable. As a result, the Company has applied a probability adjusted discounted cash flow approach to fair value its ABCP investments. This approach is based on applying probabilities to account for the uncertainties of expected future cash flows. The Company used a range of recovery probabilities to account for the lack of liquidity and relevant information available in the market place. The discount rate applied in present valuing the ABCP reflects expected interest rates for a AAA rated security.

Several assumptions were applied in determining the fair value of the Company's ABCP holdings. Significant assumptions are as follows:

- Montreal Accord is accepted effective July 1, 2008
- Simple interest is earned from the date of conduit purchase to July 1, 2008 at the yield originally offered by the trust of 4.70%
- A restructuring fee of 1% of total principal plus accrued interest is payable July 1, 2008
- Discount rate for present value calculations is the rate for 5 – 10 year Government of Canada marketable bonds (4.04%)
- Post July 1, 2008, interest is earned at the 5 – 10 year Government of Canada bond rate less 0.77% to cover margin facility fees
- Interest earned is paid in cash at the end of each quarter commencing September 30, 2008
- Equal repayments of principal and simple interest accrued to July 1, 2008 are made in years 2 – 9
- Receive 90% senior note and 10% junior note split
- Junior notes pay no principal or interest unless 100% of principal and interest on senior notes is recovered and paid

- Based on a range of probabilities, recovery of senior note principal ranged from 75% to 100%, while recovery of senior note interest ranged from 0% to 100%
- Based on a range of probabilities, recovery of junior note principal ranged from 0% to 60%, while recovery of junior note interest ranged from 0% to 30%

Applying a probability adjusted discounted cash flow approach, the fair value of the Company's ABCP holdings was determined to be $35.8 million, resulting in a fair value impairment of $5.3 million. This figure represents the Company's best estimate of impairment within a reasonable range of possible fair values. The Company recorded a fair value impairment of $2.4 million in the third quarter of 2007. The additional $2.9 million in the impairment recorded in the fourth quarter is as a result of the weakening economy and worsening global credit conditions.

Evaluation of reasonably possible alternative assumptions to those outlined above could result in significant changes to the fair value. The Company applied restructuring fees ranging from 0.75% to 1.5%, discount rates ranging from 3% to 6%, senior to junior note splits ranging from 80%/20% to 90%/10% respectively, recoveries of senior note principal ranging from 75% to 100%, recoveries of senior note interest ranging from 0% to 100%, recoveries of junior note principal ranging from 0% to 80% and recoveries of junior note interest ranging from 0% to 50% to determine reasonably possible alternative valuations. Fair values ranged from $30.4 million to $38.4 million, representing impairments ranging from $2.7 million to $10.7 million.

Due to the uncertainty regarding the outcome of the Canadian ABCP liquidity issue, it is not possible to accurately determine the fair value of these investments. The fair value of the Company's ABCP could change materially in the future. Fair value calculations are based upon the Company's assessment of prevailing conditions, which may change in subsequent periods. Possible changes that could have a material effect on the fair value of ABCP include differences in the quality of the underlying assets from current expectations, changes stemming from developments related to the liquidity of the ABCP market, the outcome of the conduit restructuring and changes in economic conditions in North America.

These investments have been classified as long term assets on the balance sheet; however, it is the Company's intention to liquidate these investments at a reasonable price should a secondary trading market develop. The Company continues to monitor the situation and will provide updates as necessary.

6. Property, Plant and Equipment

December 31, 2007 ($000s)	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties			
U.K.	$ 417,890	$ 86,632	$ 331,257
Alaska	16,113	–	16,113
	434,003	86,632	347,371
Other	1,176	911	265
	$ 435,179	$ 87,543	$ 347,636

December 31, 2006 ($000s)	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties			
U.K.	$ 173,165	$ 65,039	$ 108,126
Alaska	1,859	–	1,859
	175,024	65,039	109,985
Other	1,002	837	165
	$ 176,026	$ 65,876	$ 110,150

United Kingdom

At December 31, 2007, the net book value of U.K. oil and natural gas properties was $331.3 million (December 31, 2006 – $108.1 million) of which $239.5 million (December 31, 2006 – $100.0 million) consisted of unproved properties and major development projects which were not subject to depletion. The Company does not capitalize any overhead in respect of its U.K. operations. The Company capitalized $14.6 million of interest expense in 2007 (2006 – $6.8 million) related to its U.K. operations. The Company recorded a $12.5 million decrease in the carrying value of its U.K. property, plant and equipment in 2007 ($17.5 million decrease in 2006) relating to certain tax incentives provided to entities operating in the U.K. Continental Shelf. During 2007, the Company recorded a future income tax liability of $79.2 million related to the Peik acquisition (refer to note 7, Acquisition), which was accounted for as an increase in the carrying value of U.K. property, plant and equipment. This amount was recorded to account for the fact that no U.K. tax pools were acquired as part of the Peik acquisition.

A ceiling test calculation was performed at December 31, 2007 to assess the recoverable amount of the property, plant and equipment in the U.K. cost centre, based on proved reserves. The ceiling test indicated no impairment in the U.K. cost centre. The price forecast used in this evaluation was provided by an independent reserve evaluator as outlined in the table below, adjusted for quality and transportation differentials specific to the Company.

Year	Exchange Rate C$/US$	Brent US$/bbl	Natural Gas Price US$/mmbtu
2008	$ 1.00	$ 90.50	$ 10.06
2009	$ 1.00	$ 86.50	$ 9.11
2010	$ 1.00	$ 82.50	$ 8.68
2011	$ 1.00	$ 80.50	$ 8.47
2012	$ 1.00	$ 80.50	$ 8.47
2013 – 2018	$ 1.00	variable	variable
thereafter	$ 1.00	+2%/year	+2%/year

Alaska

At December 31, 2007, the net book value of Alaska oil and natural gas properties was $16.1 million (December 31, 2006 – $1.9 million) of which $16.1 million (December 31, 2006 – $1.9 million) consisted of unproved properties which were not subject to depletion. The Company recorded a decrease in the carrying value of its property, plant and equipment of $2.4 million in 2007 ($nil in 2006) relating to certain tax incentives provided to entities operating in the State of Alaska.

The Alaska operations are in the pre-production phase, meaning that all costs are capitalized and that no proved reserves have yet been attributed. The costs accumulated to date were evaluated for impairment according to full cost accounting standards at December 31, 2007. The evaluation indicated no impairment in the Alaska cost centre.

7. **Acquisition**

On March 15, 2007, the Company announced the acquisition of a U.K. North Sea development asset (the "Peik Acquisition"). The purchase closed on May 15, 2007. The Company acquired, through its wholly owned subsidiary Bow Valley Petroleum (UK) Limited, an undivided legal interest in U.K. petroleum production license no. P.090, comprised of a 66.67% working interest in U.K. Block 9/15a, which contains a portion of the Peik field, and a 15.00% working interest in Block 9/10b West located in the U.K. sector of the North Sea, for a purchase price of £34.65 million (C$76.1 million). To finance the transaction, the Company agreed to the terms of a £17.5 million term debt facility (refer to note 9, Bank Indebtedness) and completed an equity issue (refer to note 13, Share Capital). A future income tax liability of $79.2 million was recorded in the year ended December 31, 2007 (with an offsetting increase to property, plant and equipment) to account for the fact that no U.K. tax pools were acquired as part of the transaction.

8. **Inventory and Other Assets**

Current assets include $4.7 million (December 31, 2006 – $0.9 million) of oil produced but not sold at December 31, 2007, relating to the Company's U.K. operations. The Company records product inventories at the lower of cost and net realizable value on an average cost basis. Current other assets also include a risk management asset of $0.001 million (December 31, 2006 – nil) relating to a U.K. put option contract which is detailed in note 15.

The Company holds no non-current other assets as at December 31, 2007. At December 31, 2006, the Company held a risk management asset of $0.7 million relating to U.K. put option contracts.

9. **Bank Indebtedness**

The Company has U.K. bank facilities totaling US$150.0 million which consists of a US$125 million senior debt facility and a US$25 million mezzanine debt facility bearing interest at rates ranging from LIBOR plus 2.0% for the senior facility to LIBOR plus 8.0% for the mezzanine facility. The effective interest rates for 2007 on the senior and mezzanine debt facilities were 7.34% and 13.33%, respectively. The approved limits within the facilities are subject to semi-annual review and the facilities both expire on December 31, 2010. Interest and other fees on these loans for 2007 was $13.6 million, of which $11.3 million was capitalized and $2.3 million expensed (2006 – $6.8 million capitalized, $nil expensed). At December 31, 2007, US$106.0 million (2006 – US$43.7 million) was drawn on the facilities.

To finance the Peik Acquisition (refer to note 7, Acquisition), the Company agreed to the terms of a £17.5 million term debt facility, bearing interest at LIBOR plus 6.0%, effective May 15, 2007. The effective interest rate on the term debt facility was 12.07% for 2007. The

approved limit is subject to semi-annual review and the facility expires on May 15, 2008, but it is extendible for a further six months thereafter. Interest of $3.3 million was charged on the loan in 2007, all of which was capitalized. At December 31, 2007, £16.1 million was drawn on the facility.

The bank facilities are secured by a floating charge on all property, assets and rights of Bow Valley Petroleum (UK) Limited, and a guarantee from Bow Valley Energy Ltd.

Subsequent to year-end, the Company obtained a credit facility of US$30.0 million, which is secured by its ABCP holdings and certain guarantees. The US$30.0 million credit facility is currently being used to provide a letter of credit to secure the drilling rig being used for the Company's U.K. exploration program.

10. Asset Retirement Obligation

The following table reconciles the asset retirement obligation associated with the retirement of oil and natural gas properties:

December 31, ($000s)	**2007**	2006
Opening Balance	**$ 7,721**	$ 11,023
Increase in obligations during the year	**561**	138
Settlement of continuing operations obligations during the year	**(8)**	107
Revisions to estimates	**(2,520)**	2
Accretion expense	**697**	852
Canadian asset retirement obligation	**–**	(4,218)
Settlement of discontinued operations obligations during the year	**(20)**	(183)
Closing Balance	**$ 6,431**	$ 7,721

The total future asset retirement obligation was estimated based on the Company's net ownership interest in wells and facilities, the estimated costs to abandon the wells and facilities, the estimated reclamation costs and the estimated timing of these costs to be incurred in future periods. The asset retirement obligation for properties with proved or probable reserves was determined by the Company's independent engineers. The Company estimated the asset retirement obligations for remaining properties without proved or probable reserves. At December 31, 2007, the estimated net present value of the asset retirement obligation was $6.4 million ($6.1 million for the Company's U.K. operations and $0.3 million for the Alaska operations). The Company expects the undiscounted obligations of $13.1 million to become payable over the next 17 years with the majority between 2011 and 2016. A discount rate of between 7.0 and 10.0% and an inflation rate of 2.0% were used to calculate the present value of the asset retirement obligation.

11. Future Income Taxes

(a) Future income tax expense/(recovery)

The provision for income tax in the consolidated statement of operations, comprehensive income (loss), and deficit varies from the amount that would be computed by applying the expected tax rate to earnings before income taxes. The principal reasons

for differences between such "expected" income tax expense and the amount actually recorded are as follows:

2007 ($000s)	U.K.	Alaska	Corporate	Total
Tax Rate	**50.00%**	**40.20%**	**32.12%**	
Expected income tax expense (recovery)	**$ 22,826**	**$ (1,065)**	**$ (1,823)**	**$ 19,938**
Increase (decrease) in income taxes resulting from:				
Change in rates	–	–	–	–
Foreign exchange adjustment	**(13,464)**	–	–	**(13,464)**
Non-deductible – finance charges	**3,900**	–	–	**3,900**
Non-deductible – other	**608**	**1,065**	**1,384**	**3,057**
Actual income tax expense (recovery)	**$ 13,870**	**$ –**	**$ (439)**	**$ 13,431**

2006 ($000s)	U.K.	Alaska	Corporate	Total
Tax Rate	50.00%	40.20%	34.50%	
Expected income tax expense (recovery)	$ 1,552	$ 2	$ (1,268)	$ 286
Increase (decrease) in income taxes resulting from:				
Change in rates	–	–	–	–
Foreign exchange adjustment	(606)	–	–	(606)
Non-deductible – finance charges	–	–	–	–
Non-deductible – other	–	(2)	1,268	1,266
Actual income tax expense (recovery)	$ 946	$ –	$ –	$ 946

(b) Future income tax asset/(liability)

Differences between the accounting and tax basis of assets and liabilities at the tax rates expected to apply upon reversal of the differences are shown below:

U.K.

December 31, ($000s)	**2007**	2006
Net book value of property, plant and equipment in excess of tax basis	**$ (146,691)**	$ (53,700)
Asset retirement obligation	**2,525**	3,890
Loss carryforward	**82,230**	61,216
Ring Fence Expenditure Supplement	**6,691**	5,134
Other temporary differences	**(1,425)**	–
Future tax asset (liability)	**$ (56,670)**	$ 16,540

As at December 31, 2007, the Company is also carrying a future tax asset of $2.2 million ($2.3 million at December 31, 2006) relating to the valuation of Canadian tax pools retained by the Company after the disposition of its Canadian oil and natural gas interests.

(c) Tax pools

The approximate amounts of tax pools available are as follows:

($000s)	**2007**	2006
U.K.	**$ 174,994**	$ 127,750
Alaska	**16,113**	1,859
Corporate	**9,836**	6,609
Total	**$ 200,943**	$ 136,218

(d) Tax losses

U.K.

At December 31, 2007, the Company had losses (included in tax pools table above) available to offset future income for tax purposes of $164.5 million (2006 – $122.4 million). The losses have an indefinite life.

Alaska

No tax losses relating to Alaska have been recognized as at December 31, 2007 due to the uncertainty of realizing a future benefit from expenditures incurred to date.

Corporate

At December 31, 2007, the Company had no losses available to offset future income for tax purposes (2006 – $4.1 million).

12. Stock Based Compensation

For the year ended December 31, 2007, $1.8 million (2006 – $1.9 million) was included in general and administrative expenses and credited to contributed surplus in respect of stock based compensation. $0.4 million of the stock based compensation expense has been allocated to the discontinued Canadian operations. The amount transferred to share capital due to the exercise of stock options was $1.8 million for 2007 (2006 – $0.9 million). The stock based compensation expense for option grants is determined using the Black-Scholes option pricing model. The fair value of options granted in 2007 was calculated using a weighted average risk-free interest rate of 4.27%, an expected life of 3.78 years, weighted average volatility of 38.89%, with no expected dividend payments. The weighted average fair value of options granted in 2007 was $2.16 per option.

($000s)	Contributed Surplus
As at December 31, 2006	$ 3,341
Stock based compensation	1,786
Transfer to share capital	(1,821)
As at December 31, 2007	**$ 3,305**

13. Share Capital

(a) Authorized

Unlimited number of Class A, Class B and Class C Common Shares without nominal or par value.

Unlimited number of Class D, Class E and Class F Preferred Shares.

(b) Issued

Class A Common Shares	Number	Amount ($000s)
As at December 31, 2006	72,772,284	$ 118,302
Options exercised	2,336,944	4,980
Transfer from contributed surplus	–	1,821
Issued for cash	11,000,000	65,450
Share issue costs	–	(2,833)
Tax effect of share issue costs	–	823
As at December 31, 2007	**86,109,228**	**$ 188,543**

On April 5, 2007, the Company closed a bought deal financing for the issuance of 11.0 million subscription receipts at a price of $5.95 per subscription receipt for gross proceeds of $65.45 million. These subscription receipts were converted to common shares upon the closing of the Peik Acquisition on May 15, 2007 (refer to note 7, Acquisition).

(c) Stock Options

Stock option reconciliation

Stock Options	Number of Options	Exercise Price	Weighted Average Exercise Price
Outstanding at December 31, 2006	5,454,163	$ 1.31 – $6.51	$ 2.91
Granted	1,455,000	$ 5.98 – $6.78	$ 6.12
Exercised	(2,336,944)	$ 1.31 – $5.55	$ 2.13
Cancelled	(443,886)	$ 1.32 – $6.03	$ 3.75
Outstanding at December 31, 2007	**4,128,333**	**$ 1.36 – $6.78**	**$ 4.40**

Options outstanding

Range of Exercise Price	Number of Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
$1.01 – $2.00	977,633	$ 1.65	1.25
$2.01 – $3.00	122,500	$ 2.24	2.18
$3.01 – $4.00	720,700	$ 3.56	2.53
$4.01 – $5.00	20,000	$ 4.61	2.90
$5.01 – $6.00	932,500	$ 5.63	3.45
$6.01 – $7.00	1,355,000	$ 6.16	4.66
Total	4,128,333	$ 4.40	3.11

Exercisable options

Range of Exercise Price	Number of Exercisable Options	Weighted Average Exercise Price
$1.01 – $2.00	969,300	$ 1.65
$2.01 – $3.00	89,167	$ 2.25
$3.01 – $4.00	480,467	$ 3.56
$4.01 – $5.00	13,333	$ 4.61
$5.01 – $6.00	269,167	$ 5.58
$6.01 – $7.00	25,000	$ 6.51
Total	1,846,433	$ 2.84

14. Per Share Information

(a) Basic per share information is calculated on the basis of the weighted average common shares outstanding during the year. For 2007, the weighted average number of common shares outstanding was 81,486,113 (2006 – 69,699,536).

(b) Diluted per share information is calculated as the sum of the weighted average common shares outstanding during the period plus additional common shares to account for the dilutive effects of the Company's outstanding stock options during the period. The dilutive effect of outstanding options is calculated using the treasury stock method. The diluted weighted average number of common shares outstanding during 2007 was 82,954,229 (2006 – 72,278,143). This amount represents the sum of the weighted average common shares outstanding plus 1,468,116 (2006 – 2,578,607) common shares.

15. Risk Management

During 2007, the Company recorded an unrealized gain of $0.5 million (2006 – unrealized gain of $0.01 million) and a realized loss of $1.3 million (2006 – realized loss of $0.4 million) due to the mark-to-market and settlement of outstanding risk management contracts respectively.

As at December 31, 2007, the Company had only one risk management contract outstanding:

	Time Frame	Basis	Volume *(bbls)*	Price
Put contract – oil	Calendar year 2008	Brent	365,000	US$50.00

16. Foreign Exchange

The reporting currency of the Company is Canadian dollars. The Company's wholly-owned subsidiary, Bow Valley Petroleum (UK) Limited, has debt facilities that are denominated in U.S. dollars and British pound sterling (classified as current liabilities). Current U.K. accounts, including accounts payable and accounts receivable, are denominated in British pound sterling, U.S. dollars, Euros, and Norwegian kroner. The Company's wholly owned subsidiary, Bow Valley Alaska Corporation, has current accounts that are denominated in U.S. dollars. Both Bow Valley Petroleum (UK) Limited and Bow Valley Energy Ltd. hold foreign currency denominated cash balances. The Company records foreign exchange gains and losses (both realized and unrealized) as a result of rate movements between the time debt, payables, receivables and foreign cash balances are incurred or recorded and the time they are paid or received or valued on the balance sheet dates.

The Company recorded an unrealized gain of $27.7 million (2006 – unrealized loss of $2.3 million) and a realized gain of $0.8 million (2006 – realized loss of $1.4 million) in 2007.

17. Geographic Segment Information

Income (loss)

Year Ended December 31, 2007 ($000s)	U.K.	Alaska	Corporate	Consolidated
Operating revenue	$ 48,464	$ –	$ –	$ 48,464
Interest and other income	264	–	1,502	1,766
Royalties	(1,041)	–	–	(1,041)
Operating costs	(3,836)	–	–	(3,836)
Transportation expense	(351)	–	–	(351)
General and administrative costs	(4,143)	(1,524)	(1,727)	(7,394)
Stock based compensation	(866)	(518)	–	(1,384)
Interest expense	(2,293)	–	–	(2,293)
Foreign exchange gain (loss) – realized	1,350	(545)	(44)	761
Foreign exchange gain (loss) – unrealized	27,714	(39)	(25)	27,650
Risk management gain (loss) – realized	(1,286)	–	–	(1,286)
Risk management gain (loss) – unrealized	536	–	–	536
Depletion, depreciation and amortization	(18,875)	(20)	(132)	(19,027)
Accretion expense	(576)	(3)	–	(579)
ABCP fair value gain (loss) – unrealized	–	–	(5,251)	(5,251)
Future income tax recovery (expense)	(13,870)	–	439	(13,431)
Net income (loss) for the period (excluding discontinued operations)	$ 31,191	$ (2,649)	$ (5,238)	$ 23,304

Year Ended December 31, 2006 ($000s)	U.K.	Alaska	Corporate	Consolidated
Operating revenue	$ 15,978	$ –	$ –	$ 15,978
Interest and other income	106	–	180	286
Royalties	(302)	–	–	(302)
Operating costs	(1,750)	–	(1)	(1,751)
Transportation expense	(177)	–	–	(177)
General and administrative costs	(1,491)	(32)	(1,711)	(3,234)
Stock based compensation	–	–	(1,934)	(1,934)
Interest expense	(30)	–	(1)	(31)
Foreign exchange gain (loss) – realized	(1,532)	–	100	(1,432)
Foreign exchange gain (loss) – unrealized	(2,244)	38	(97)	(2,303)
Risk management gain (loss) – realized	(420)	–	–	(420)
Risk management gain (loss) – unrealized	14	–	–	14
Depletion, depreciation and amortization	(4,428)	–	(213)	(4,641)
Accretion expense	(620)	–	–	(620)
ABCP fair value gain (loss) – unrealized	–	–	–	–
Future income tax recovery (expense)	(946)	–	–	(946)
Net income (loss) for the period (excluding discontinued operations)	$ 2,158	$ 6	$ (3,677)	$ (1,512)

The 2006 corporate net income (loss) amounts include the depreciation expense associated with the Canadian fixed assets that have not been disposed of as part of discontinued operations and the stock based compensation expense in respect of options

granted to Company employees. These costs have been allocated to the operating segments in 2007, based on an allocation methodology which is intended to reflect the benefits received by each of the respective operating segments.

Capital

December 31, 2007 *($000s)*	U.K.	Alaska	Corporate	Consolidated
Assets	**$ 376,878**	**$ 17,604**	**$ 43,045**	**$ 437,527**
Capital costs incurred [1]	**$ 180,279**	**$ 16,312**	**$ –**	**$ 196,591**

December 31, 2006 ($000s)	U.K.	Alaska	Corporate	Consolidated
Assets	$ 129,178	$ 1,859	$ 21,597	$ 152,634
Capital costs incurred [1]	$ 88,789	$ 1,859	$ –	$ 90,648

[1] Total excludes non-cash changes to property, plant and equipment

Corporate assets include Canadian cash balances, the fair value of the Company's ABCP holdings, and fixed assets (net of accumulated depreciation), as well as certain working capital amounts that have not been disposed of as part of discontinued operations. Corporate assets also include the valuation of Canadian tax pools retained by the Company after the disposition of its Canadian oil and natural gas interests.

18. Commitments

As at December 31, 2007, the Company is committed to Canadian and U.K. office leases with payments as follows:

($000s)	Amount
2008	$ 781
2009	664
Thereafter	–
Total	$ 1,444

The Company is participating in the field development of the Chestnut and Ettrick fields in the U.K. and has remaining Blane field development commitments. The Company will incur an estimated $55 million in capital costs in respect of these developments. The timing and costs are subject to change based on the ability of the operators to complete the field developments as planned. The Company expects to finance these commitments through U.K. debt facilities and cash flow from operations.

The Company has contracted a drilling rig for three North Sea offshore exploration wells (the 9/28, 16/27, and 22/11 blocks). Drilling on the 9/28 block commenced in the fourth quarter of 2007. Drilling on the 16/27 block was completed in the first quarter of 2008. Drilling on the 22/11 block is expected to commence in the third quarter of 2008. The estimated total remaining financial commitment at December 31, 2007 is approximately US$31.5 million.

The Company has, with its respective co-venturers, contracted an FPSO for each of the Chestnut and Ettrick field developments. At the Chestnut field, the co-venturers have contracted the Sevan Marine Hummingbird for 30 months at a rate of US$85,000 per day gross (US$12,850 per day net) commencing from first production at the field. At the Ettrick field, the co-venturers have contracted the Bluewater Aoka Mizu for five years at a rate of US$168,000 per day (US$20,150 per day net) commencing from first production at the field. The Company's share of these FPSO commitments is US$48.5 million.

19. Contingencies

On May 31, 2007, the Company received judgment on the Balal litigation wherein it was ordered to pay damages of £500,000, plus interest, resulting in a payable of approximately £800,000 (C$1.7 million). Under the judgment, the Company will be liable for a portion of the plaintiff's legal fees, but will be able to recover a portion of its own legal expenses of defending this action from the plaintiff. A reasonable estimate of the net legal fees expected to be paid or recovered cannot be made at this time. General and administrative expenses in 2007 include an accrual to record the judgment against the Company. The judgment was appealed by the plaintiff and cross-appealed by the Company in the third quarter of 2007. The appeal hearing is expected to be heard in the first half of 2008.

On March 15, 2007, the Company announced the acquisition of a U.K. North Sea development asset (refer to note 7, Acquisition). The terms of the acquisition obligate the Company to make contingent payments to the vendor of these assets if certain production and natural gas price levels are achieved in the future. The amount of any future contingent consideration cannot be reasonably estimated at this time and no amounts have been accrued in the financial statements to date.

Health, Safety and Environment

BOW VALLEY'S GOAL IS TO IMPLEMENT AND MAINTAIN high standards of health, safety and environmental performance in all our operations. We operate in a manner designed to ensure the health and safety of our employees, contractors and the public, and to minimize adverse effects on the environment. We are committed to:

- providing practical health, safety and environmental policies and programs for all employees and contractors;
- maintaining emergency response procedures that allow personnel to respond promptly and effectively to emergencies;
- establishing training programs designed to ensure employees receive appropriate training relative to their job function;
- considering good safety performance in the process of selecting contractors, suppliers and other services;
- establishing monitoring procedures designed to ensure our operations are conducted in compliance with applicable laws and Company standards; and
- establishing reporting and investigation procedures for all injuries, serious incidents and environmental concerns.

The broadening scope of our operations has necessitated a greater focus on the effect of our operations on the environment. We recognize the diversity of opinion that exists among stakeholders regarding the environmental effect of oil and natural gas activities. Bow Valley is committed to responding to stakeholder concerns. While we may not always share the same opinion as stakeholders, we recognize that positive, two-way communications and a willingness to consider project design alternatives can play an important role in providing an effective response and in reducing our effect on the environment.

Bow Valley, as with all offshore operators active in the exploration and production of oil and natural gas in the U.K. Continental Shelf, is party to a voluntary oil pollution compensation scheme known as the Offshore Pollution Liability Agreement (OPOL). Under OPOL, operating companies agree to accept strict liability for pollution damage and the cost of remedial measures. OPOL applies to all offshore facilities from which there is risk of a discharge of oil causing pollution damage.

Corporate Governance

THE BOARD AND MANAGEMENT RECOGNIZE that effective corporate governance is important to the direction and operation of the Company. As a result, Bow Valley has developed and implemented, and continues to develop, implement and refine formal policies and procedures which reflect our ongoing commitment to good corporate governance and which encourage a culture of integrity, honesty and respect.

Composition of the Board

The Board of Directors consisted of six individuals in 2007, including a non-executive Chairman of the Board and the President and Chief Executive Officer of the Company. Five of the six directors, including the Chairman of the Board, are considered independent within the meaning of applicable securities legislation.

The Board has responsibility for overseeing the management of the Company. In addition to the obligations of the Board mandated by law, the Board has responsibility for strategic planning, the selection and monitoring of management and the identification of the principal risks associated with Bow Valley's business. These duties and responsibilities, among others, are set forth in a written charter that has been adopted by the Board. The Board of Directors charter is attached as Schedule B of the Information Circular available on SEDAR at www.sedar.com. The Board approves all significant decisions that materially affect the Company before they are implemented and annually approves the Company's key business and financial objectives.

Certain powers, duties and responsibilities of the Board have been delegated to committees of the Board, as described below.

Committees

The Board of Directors has five committees – the Audit Committee, the Reserves Committee, the Compensation and Corporate Governance Committee, the Hedging Committee and the Nominating Committee. The Company also has a Disclosure Committee comprised of members of management, with responsibility for disclosure related matters. Membership in each committee is set forth below. For information on the attendance at meetings of each of the committee members, see "Annual Meeting Business – Election of Directors – Meetings Held and Attendance of Directors" in the Information Circular available on SEDAR at www.sedar.com.

Audit Committee

The Audit Committee is comprised of Messrs. Jack W. Peltier (Chairman), Henry R. Lawrie, Gerald J. Maier and George Y. Tooley. All members are directors who are considered independent within the meaning of applicable securities legislation.

The Audit Committee is responsible for assisting the Board of Directors in fulfilling its oversight responsibilities in respect of the review and approval of the financial statements and reporting processes of the Company, review of the system of internal controls that management has established and for overseeing the external audit process. The Audit Committee has a direct communication channel with the external auditors and meets with them independently of management.

Reserves Committee

The Reserves Committee is comprised of Messrs. Henry R. Lawrie (Chairman), Jack W. Peltier and Gerald J. Maier. All members are directors who are considered independent within the meaning of applicable securities legislation.

The Reserves Committee is responsible for assisting the Board of Directors in fulfilling its oversight responsibilities in respect of the reserves evaluation process. The Reserves Committee meets with the independent engineers to assess the methodology used in estimating the reserves and to consider whether adequate information was made available for their reserves assessment and whether management co-operated in making such information available. The Reserves Committee has a direct communication channel with the independent engineers and meets with them independently of management.

Compensation and Corporate Governance Committee

The Compensation and Corporate Governance Committee is comprised of Messrs. Henry R. Lawrie (Chairman), Daryl K. Seaman and George Y. Tooley. All members are directors who are considered independent within the meaning of applicable securities legislation.

The Compensation and Corporate Governance Committee is responsible for assisting the Board of Directors in fulfilling its corporate governance role and approving the overall compensation policies of the Company. The committee also has the responsibility of monitoring and considering the effectiveness of the Board, its committees and the individual directors, including the composition and size of the Board and its committees and the compensation of the Board members.

Hedging Committee

The Hedging Committee is comprised of Messrs. Robert G. Moffat (Chairman), Gerald J. Maier and George Y. Tooley. Messrs. Maier and Tooley are directors who are considered independent within the meaning of applicable securities legislation, whereas Mr. Moffat is a member of management.

The Hedging Committee is responsible for assessment and review of the Company's risk management activities.

Nominating Committee

The Nominating Committee is comprised of Messrs. Daryl K. Seaman (Chairman), Henry R. Lawrie and Jack W. Peltier. Al members are directors who are considered independent within the meaning of applicable securities legislation.

The Nominating Committee is responsible for assisting the Board of Directors in fulfilling its oversight responsibilities in respect of determining the competencies and skills that the Board of Directors, as a whole, should possess. The Nominating Committee also has the responsibility for recommending new candidates for election to the Board of Directors and for the orientation of new directors.

Disclosure Committee

The Disclosure Committee is comprised of Messrs. Robert G. Moffat (Chairman), Matthew L. Janisch and other senior technical representatives of each of the Company's operating jurisdictions as deemed necessary. All members are members of management.

The Disclosure Committee is responsible for oversight of the Company's disclosure controls and procedures and endeavoring to ensure the Company meets all regulatory disclosure requirements. The Disclosure Committee reviews and, as necessary, helps revise the Company's disclosure controls and other procedures in a manner designed to ensure that information required to be disclosed by securities regulators and the Toronto Stock Exchange, and other information the Company discloses to the public is recorded, processed, summarized and reported accurately and on a timely basis.

CORPORATE POLICIES

Corporate Disclosure Policy

The Disclosure Policy confirms in writing the existing disclosure policies and practices of the Company. The goal of the policy is to promote appropriate and consistent disclosure practices aimed at accurate, informative, timely and broadly disseminated disclosure of material information to the market and to promote compliance among the directors, officers, employees and consultants of the Company.

The policy covers written disclosure in documents filed with the securities commissions and stock exchanges, written statements made in the Company's annual and quarterly reports, news releases, letters to shareholders and other documents released to the public, the content of which would reasonably be expected to affect the market price or value of the Company's securities, or a reasonable investor's investment decision, including information contained on the Company's website and other electronic communications. The policy also extends to public oral statements made in meetings and telephone conversations with analysts and investors, interviews with the media, press conferences, conference calls and in other circumstances in which it is reasonable to expect that the information will become generally disclosed.

Code of Business Conduct

The Code of Business Conduct applies to all directors, officers, employees and consultants of the Company. The Board of Directors is responsible for monitoring compliance with the Code of Business Conduct and for approving waivers of such standards by any director or officer. Waivers in respect of employees or consultants may be given by the President and Chief Executive Officer who must report any such waiver to the Board.

The Code of Business Conduct addresses such matters as conflicts of interest, confidential information, and the protection and proper use of the Company's assets. All directors, officers, employees and consultants are encouraged to report violations of the Code of Business Conduct in accordance with the procedures described in the Company's whistleblower policy.

Whistleblower Policy

The purpose of the Whistleblower Policy is to maintain a workplace where concerns regarding questionable business practices can be raised without fear of any discrimination, retaliation or harassment. The Whistleblower Policy encourages all directors, officers, employees and consultants to promptly report either orally or in writing any activity that may constitute

questionable accounting or auditing practices; inadequate internal accounting controls; misleading or coercion of auditors; disclosure of fraudulent or misleading financial information; instances of corporate fraud; a material misrepresentation in any written or oral disclosure made by or on behalf of the Company; breaches of the Company's policy on trading in securities; and other activities which may violate the Company's Code of Business Conduct.

The Whistleblower Policy outlines several means by which concerns may be reported, including communication with an immediate supervisor, an officer or director of the Company, or contact with the Chairman of the Audit Committee. Contact by mail, telephone, fax or email is encouraged. All reports made to supervisors and officers in respect of matters specifically covered by the Whistleblower Policy are reported to the Audit Committee of the Board of Directors.

Policy on Trading in Securities by Directors, Officers, Employees and Consultants

The purpose of the Policy on Trading in Securities by Directors, Officers, Employees and Consultants is to ensure compliance with provincial securities laws governing trading while in possession of material non-public information concerning the Company. The Policy also prohibits tipping or disclosing material non-public information to outsiders.

The scope of the Policy is defined to include family and household members; shares directly or indirectly owned; and shares over which control or direction is exercised. The Policy defines "material non-public information", outlines prohibited activities, and provides information regarding blackout periods and reporting requirements for insiders. The Policy outlines some of the penalties of prohibited trading and/or tipping under securities laws, as well as the potential disciplinary actions by the Company.

BOARD OF DIRECTORS

Daryl K. Seaman, O.C.
Chairman of the Board

Mr. Seaman is Chairman of the Board and a founder of Bow Valley Energy Ltd. From 1992 to present, he has been Chairman and President of Dox Investments Inc., a private holding company. From 1949 through 1992, he was Chairman, Chief Executive Officer and Director of Bow Valley Industries Ltd. and its predecessor companies which he co-founded. Mr. Seaman is also a director of Far West Mining Ltd. and Pure Technologies Ltd. Mr. Seaman is an Officer of the Order of Canada.

Robert G. Moffat
President, Chief Executive Officer and Director

Mr. Moffat graduated from Queen's University in Kingston, Ontario in 1977 with a B.Sc. (Geology) degree. From 1995 to 2001, he was President, Chief Executive Officer and Director of Courage Energy Inc. From 1992 though 1995, he was President of Springsyde Resources Ltd., a company he founded and which later became Courage Energy Inc. through an amalgamation and name change in 1995. Prior thereto, he was Vice President and Director of Highridge Exploration Ltd. Mr. Moffat is also a director of Global Energy Services Ltd. and Sylogist Ltd.

Henry R. Lawrie
Director

Mr. Lawrie joined Price Waterhouse in Calgary, was admitted to partnership in 1971 and served as a partner in Calgary, Toronto, Dallas and Midland, Texas. He was Co-Chairman, Price Waterhouse Canada Oil and Gas Specialty; Managing Partner, Price Waterhouse, Calgary; and was twice elected to the Price Waterhouse Canada Policy Board. He retired from Price Waterhouse in June 1997. In addition, Mr. Lawrie was Chief Accountant of the Alberta Securities Commission from 1997 through 2001, Chair of the Oil and Gas Securities taskforce, and Advisor to the Commission. Mr. Lawrie is a director of several public companies including Berens Energy Ltd., Delphi Energy Corp., Flagship Energy Inc. and Storm Exploration Inc.

Gerald J. Maier, O.C.
Director

Mr. Maier has a long career in the energy business, including roles as Chairman and CEO of Hudson's Bay Oil and Gas and TransCanada PipeLines and CEO of Bow Valley Industries. Mr. Maier is currently Chairman of Granmar Investments Ltd., a private investment company and sits on the boards of Stream-Flo Industries Ltd., Master Flo Valve Inc., Gem Inc., and Willbros Group, Inc. He is a Fellow of the Canadian Academy of Engineering and was invested as an Officer to the Order of Canada in 2003 for his various roles focusing on social responsibility. Mr. Maier holds a B.Sc. degree in Petroleum Engineering from the University of Alberta.

Jack W. Peltier
Director

Mr. Peltier is currently President of Ipperwash Resources Ltd., a company engaged in oil and natural gas production, investments and consulting services. He is a director of Ember Resources Inc. and Masters Energy Inc., both public companies; a director of Tundra Oil & Gas Ltd., a private company; and a member of the board of trustees of Paramount Energy Trust and Gienow Income Fund, both of which are publicly listed.

George Y. Tooley
Director

Mr. Tooley is currently a principal of the Petrovest Group. He has been actively involved in the financing and administration of petroleum and mining projects for the last 18 years. Mr. Tooley is President of a private holding company. From 1995 to 2005, he was Vice President and Director of Fairstar Explorations Inc., a public mining exploration company. From 1992 through 2001, he was a Director of Courage Energy Inc., a public oil and natural gas company.

MANAGEMENT

Robert G. Moffat
President, Chief Executive Officer and Director

Mr. Moffat graduated from Queen's University in Kingston, Ontario in 1977 with a B.Sc. (Geology) degree. From 1995 to 2001, he was President, Chief Executive Officer and Director of Courage Energy Inc. From 1992 though 1995, he was President of Springsyde Resources Ltd., a company he founded and which later became Courage Energy Inc. through an amalgamation and name change in 1995. Prior thereto, he was Vice President and Director of Highridge Exploration Ltd. Mr. Moffat is also a director of Global Energy Services Ltd. and Sylogist Ltd.

Matthew L. Janisch
Vice President, Finance and Chief Financial Officer

Mr. Janisch, B.Sc., MBA, graduated with a Masters of Business Administration from the University of Western Ontario in 1991 and a B.Sc. (Petroleum Engineering) degree from the University of Alberta in 1984. He has over 20 years of experience in banking, corporate finance, capital markets and oil and natural gas research and engineering. Previously, Mr. Janisch was Managing Director of Oil and Natural Gas Equity Research at a major Canadian bank, where his responsibilities included equity coverage of senior domestic and international E&P companies as well as commodity price forecasting. He also has extensive experience in investment banking within the oil and natural gas sector, including debt and equity issues as well as mergers and acquisitions.

Nick J. Fairbrother
Managing Director, Bow Valley Petroleum (UK) Limited

Mr. Fairbrother has 29 years of diverse oil and natural gas experience in the North Sea. He has full responsibility for Bow Valley's U.K. operations. Since his graduation in 1977 from Birmingham University with a B.Sc. (Chemical Engineering) degree, Mr. Fairbrother has held technical and management positions of increasing responsibility with Amoco (UK) Exploration, Shell UK, Kerr-McGee and Amerada Hess. As Vice President, Production at Amerada Hess, Mr. Fairbrother was responsible for all operations in Europe, North Africa and Asia. In 2002, he co-chaired a joint industry group which introduced the United Kingdom's new Fallow Acreage rules.

Five Year Summary

	2007	2006	2005	2004	2003
U.K. Sales Volumes					
Crude oil and NGL *(bbl/d)*	**1,461**	527	815	497	1,002
Natural gas *(mmcf/d)*	**2.1**	0.7	2.3	3.3	3.9
Barrels of oil equivalent *(boe/d)*	**1,817**	647	1,195	1,053	1,652
U.K. Reserves					
Crude oil and NGL *(mbbls)*					
Proved	**5,862**	4,235	3,247	550	834
Probable	**7,853**	6,428	7,016	10,850	11,810
Total proved plus probable	**13,715**	10,663	10,263	11,400	12,644
Natural gas *(mmcf)*					
Proved	**5,128**	4,215	4,400	6,000	7,300
Probable	**72,619**	11,777	11,300	12,400	14,400
Total proved plus probable	**77,747**	15,992	15,700	18,400	21,700
Barrels of oil equivalent *(boe)*					
Proved	**6,716**	4,937	3,980	1,550	2,051
Probable	**19,958**	8,392	8,899	12,917	14,210
Total proved plus probable	**26,674**	13,329	12,880	14,467	16,261
Undeveloped Land *(net acres – 000s)*					
U.K.	**84**	50	79	42	41
Alaska	**59**	8	–	–	–
Total undeveloped land	**143**	58	79	42	41

Corporate Information

BOARD OF DIRECTORS

Daryl K. Seaman, O.C. (1) (5)
Chairman of the Board
Calgary, Alberta

Robert G. Moffat (4)
President, Chief Executive Officer and Director
Calgary, Alberta

Henry R. Lawrie (1) (2) (3) (5)
Director
Calgary, Alberta

Gerald J. Maier, O.C. (2) (3) (4)
Director
Calgary, Alberta

Jack W. Peltier (2) (3) (5)
Director
Calgary, Alberta

George Y. Tooley (1) (2) (4)
Director
Montreal, Quebec

(1) Member of the Compensation and Corporate Governance Committee
(2) Member of the Audit Committee
(3) Member of the Reserves Committee
(4) Member of the Hedging Committee
(5) Member of the Nominating Committee

BOARD OF DIRECTORS (U.K.)

Christopher D. Longman
Robert G. Moffat
Walter R. Roberts
Matthew L. Janisch
Nick J. Fairbrother

BOARD OF DIRECTORS (ALASKA)

David B. Orser
Matthew L. Janisch

MANAGEMENT

Robert G. Moffat
President, Chief Executive Officer and Director

Matthew L. Janisch
Vice President, Finance and Chief Financial Officer

Nick J. Fairbrother
Managing Director, Bow Valley Petroleum (UK) Limited

R.J. (Bob) Engbloom
Corporate Secretary

AUDITORS

PricewaterhouseCoopers LLP

REGISTRAR AND TRANSFER AGENT

Valiant Trust Company

SOLICITORS

Macleod Dixon LLP

INDEPENDENT ENGINEERS

GLJ Petroleum Consultants Ltd.
Senergy Ltd

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol: BVX

ANNUAL INFORMATION FORM

The Annual Information Form can be obtained on request from the Company, from the Company's website, or from SEDAR at www.sedar.com.

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